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IN THE

Supreme Court of the United States

OCTOBER TERM, 1967.

No. 1084

NATIONAL GYPSUM COMPANY AND
PLAZA PLASTERING COMPANY,
Petitioners,

vs.

UNITED STATES GYPSUM COMPANY,
Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

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February 5, 1968.

THE BLAKELY PRINTING COMPANY, CHICAGO

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UNITED STATES GYPSUM COMPANY,
Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

Petitioners pray that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Seventh Circuit entered October 2, 1967 and corrected December 21, 1967.

OPINIONS BELOW.

The oral opinions of the district court are not officially reported. They are included in the Appendix separately presented (App. 12-29, 30-50). The decision of the Court of Appeals for the Seventh Circuit is reported at ..... F. 2d ..... (7th Cir. 1967), 155 U. S. P. Q. 362, and is also included in the Appendix (App. 1-8).

JURISDICTION.

The judgment of the United States Court of Appeals for the Seventh Circuit was entered October 2, 1967 (App. 9). A timely petition for rehearing was denied on November 7, 1967. After a recall of the mandates, the judgment was corrected on December 21, 1967 (App. 10).

On January 4, 1968, this Court entered an order extending the time for filing this petition to February 5, 1968.

The jurisdiction of this Court is invoked under 28 U. S. C. § 1254(1).

QUESTIONS PRESENTED.

1) Is it a misuse of a patent to tie to the licensing of the patent the sale of an unpatented product?

2) Is it necessary to establish relevant market characteristics before a violation of § 1 of the Sherman Act is made out, where the patentee has tied the sale of an unpatented product which may be used in the patented process to a license under a patent?

3) Did the lower courts misinterpret the decree entered by the district court after the decisions in *United States* v. *United States Gypsum,* 333 U. S. 364 (1948) and 340 U. S. 76 (1950), which decree prohibited respondent from licensing its patents where the royalty is "imposed upon or measured by patent-free products, processes or uses," when it refused to equate "patent-free" and "unpatented", where the unpatented article can be used after sale in a patented process or product?

4) Did the court of appeals err in holding that it is not a *per se* violation of the antitrust laws to violate a decree entered to enforce the antitrust laws?

CONSTITUTIONAL PROVISIONS AND STATUTES INVOLVED.

United States Constitution:

U. S. CONST. art. I, § 8.

Statutes:

The Sherman Antitrust Act §§ 1, 2 and 3, 26 Stat. 209 (1890) as amended by 36 Stat. 1167 (1911), 50 Stat. 693 (1937), 15 U. S. C. §§ 1, 2 and 3 (1964).

The Clayton Act § 4, 38 Stat. 731 (1914), 15 U. S. C. § 15 (1964).

The Patent Act of 1952, § 271, 65 Stat. 792 (1952), 35 U. S. C. § 271 (1964).

The pertinent text of the constitutional provision and the above cited statutes is set out verbatim in the Appendix (App. 75-78).

STATEMENT OF THE CASE.

This case was commenced in the Northern District of Illinois by a complaint filed by United States Gypsum Company (hereinafter respondent) against National Gypsum Company and Plaza Plastering Company (hereinafter sometimes referred to as petitioners) charging infringement of U. S. patent No. 2,749,267. Petitioners answered that the patent was invalid and not infringed and counterclaimed that respondent, through its licensing practices, had violated the antitrust laws. The district court found the patent valid but not infringed and, in a separate opinion, that there had been no violation of the antitrust laws.

Respondent appealed the finding of non-infringement. Petitioners appealed the district court's failure to find the patent invalid and on the antitrust issues.

The court of appeals reversed on the question of in-

fringement, remanded the case for further findings on the question of validity and affirmed on the antitrust issues. A timely petition for rehearing was filed by defendants which petition was directed solely to certain issues involved in the question of validity. The petition for rehearing was denied on November 7, 1967.

This petition is directed solely to the antitrust issues raised by the counterclaim and related questions of patent misuse.

In August of 1940, the United States instituted a suit against respondent and various other defendants including petitioner, National, charging violation of sections 1, 2 and 3 of the Sherman Act (26 Stat. 209 (1890) as amended by 36 Stat. 1167 (1911), 50 Stat. 693 (1937), 15 U. S. C. sections 1, 2 and 3). The defendants in that case were found to have conspired to fix prices on gypsum board and gypsum board products under patents held by respondent. It was found that:

> "Since its organization in 1901, United States Gypsum has been the dominant concern in the gypsum industry. . . . By development and purchase it has acquired the most significant patents covering the manufacture of gypsum board. . . ." *United States* v. *United States Gypsum Company,* 333 U. S. 364, 368 (1948).

Defendants there were also charged with conspiracy to fix prices on unpatented gypsum products and

> "to standardize gypsum board and its method of production for the purpose of eliminating competition and to regulate the distribution of gypsum board by eliminating jobbers and fixing resale prices of manufacturing distributors." *Id* at 367.

After extended litigation in which the charged conspiracy was established and condemned, the cause was remanded to the United States District Court for the District of

Columbia. Ultimately, a decree was entered* directing respondent to grant licenses on all patents "relating to gypsum board, is processes, methods of manufacture or use ... issued to, applied for, or acquired by" it within five years after the date of the decree (Article II, para. 4; App. 54). Respondent was permitted to charge a reasonable, non-discriminatory royalty "which royalty may not be imposed upon or measured by patent-free products, processes or uses. . . ." (Article VI, para. 2(b); App. 58-59.)

The patent issued from an application filed on April 7, 1953 as a continuation of an application filed March 30, 1950. It contains 5 claims of which claims 1 and 5 are representative.

> "1. The combination with wallboards attached to a support and having edges in substantially abutting relationship forming a wallboard joint, of a strong thin cellulosic strip having perforations throughout with diameters from about 0.02 inch to 0.002 inch, said strip being adhesively secured over said joint and the edges of said wallboards adjacent thereto.
>
> "5. The method of covering the joint between adjacent wallboards which comprises adhesively securing over said joint a strip of strong paper provided with substantially uniformly arranged spark-produced perforations having diameters from about 0.02 inch to 0.002 inch to permit the escape of air entrapped beneath said strip while substantially preventing the escape therethrough of adhesive employed to secure the strip in place."

The tape used in the patented method and combination has frequently been referred to as "spark-perforated tape" because the minute perforations may be made by burning holes through paper tape by means of electric sparks.

The use of tape to cover the joints between adjacent pieces of wallboard is almost as old as the use of wallboard

* The decree of May 15, 1951 is set out in the Appendix (App. 51-63).

itself. Since the 1920's, a myriad of tapes have been used including strips of loosely woven cloth, metal strips, metal strips with holes, a cloth commonly referred to as "balloon cloth," paper tape with large holes, plain paper tape and spark-perforated tape.

Respondent's original patent application was directed to the spark-perforated tape *per se* and to the machine for making the tape. Claims covering the tape *per se* were rejected by the Patent Office and finally abandoned by respondent.

Respondent does not make or sell the combination set out in its patent. Nor does it perform the method claimed therein. It sells spark-perforated tape with each roll bearing the statement:

> "Licensed For Use In Wallboard Construction Covered By Pat. No. 2,749,267."

Respondent has never granted a direct license to any user of the patented process. Instead, it controls the market for unpatented tape by licenses to manufacturers of the unpatented tape who are required to include on each roll of tape the legend "Licensed for use under patent No. 2,749,267." Respondent has granted licenses to two such manufacturers, The Marvan Corporation and Evon Industries, Inc., calling for royalties based on "tape used, or sold for use, in said invention. . . ." The "tape shall be considered as sold when delivered or shipped by Licensee to purchasers, or when paid for if paid for before delivery." A copy of the Evon license, identical to the Marvan license, is included in the Appendix (App. 69-75).

By the purchase of tape from respondent or one of its licensees, the purchaser obtains the right to perform the method and make the combination. No royalty rate is stated, and the royalty from the maker of the tape, but not

from the patent user, is graduated. The purchaser is not informed that if he wishes to purchase the tape elsewhere he can obtain a license separately. There is no evidence that respondent has ever licensed "others who desire to use tape not produced" by it, although the court of appeals ruled otherwise (App. 7). The only way an end user has ever obtained a license to practice the patented method and make the patented combination is through the purchase of tape from respondent or one of its licensees. Each of the licensees may only grant rights to practice the invention to purchasers of its tape.

Petitioners charged that the scheme was not only a misuse of the patent making the patent unenforceable, but that it was a tying arrangement unlawful under the antitrust laws.

It is not clear from the district court's opinion whether that decision disposed of all the misuse issues, possibly because the district court held the patent not infringed and, consequently, the issue of enforceability of the patent was moot. It dismissed petitioners' antitrust counterclaim on the ground that even if the activity constituted misuse or a violation of the decree of May 15, 1951, there was no antitrust violation as petitioners failed to prove intent to monopolize, power to monopolize, elements of the relevant market, and a dangerous probability of accomplishing a monopoly.

Petitioners appealed arguing that the district court erred in requiring such proof since each of those elements was established in a tying arrangement involving a patented tying combination and an unpatented tied element used in the combination. The related misuse question was also argued in response to respondent's appeal on the question of infringement.

The decision of the court of appeals is devoid of any

reference to the tying arrangement as an antitrust violation. It apparently ruled that the activity was not a misuse because "it appears that plaintiff does license others who desire to use tape not produced by plaintiff" (App. 7). As set out above, this statement has no basis in the record.

REASONS FOR GRANTING THE WRIT.

1. LICENSES TYING UNPATENTED SUPPLIES TO PATENTED COMBINATIONS WERE NOT DECLARED LAWFUL BY THE PATENT ACT OF 1952.

The opinions below are illustrative of the confusion existing in the federal courts in the treatment of matters involving patent licenses and in defining the relationship between patent misuse and violations of the antitrust laws. This Court has not heard a case involving patent tie-in arrangements since the enactment of the Patent Act of 1952 (66 Stat. 792 (1952), 35 U. S. C. §§ 1-293). In the interim, decisions have held that § 271 of the Act negated the ruling of misuse laid down by this Court in *Mercoid Corp.* v. *Mid-Continent Invest. Co.*, 320 U. S. 661 (1943), *e.g.*, see *Buxton, Inc.* v. *Julen, Inc.*, 223 F. Supp. 697, 700 (S. D. N. Y. 1963), while writers have opined that § 271 left the law of misuse intact and reinstated the law of contributory infringement as it existed prior to *Mercoid*. Turner, *The Validity of Tying Arrangements Under the Antitrust Laws*, 72 HARV. L. REV. 50, 68 n. 50 (1958). Also see, *Dr. Salsbury's Labs* v. *I. D. Russell Co. Labs.*, 212 F. 2d 414 (8th Cir. 1954), cert. den'd. 348 U. S. 837 (1954).

In *Mercoid*, the Court found "a misuse of the patent privilege and a violation of the antitrust laws" where the owner of a combination patent and its exclusive licensee granted the right to use the combination only to those who

purchased an unpatented element of the combination from the licensee. 320 U. S. at 670.

Subsequently, in the Patent Act of 1952, Congress enacted 35 U. S. C. § 271 for the purpose "of overruling any blanket invalidation of the doctrine [of contributory infringement] that could be found in the *Mercoid* opinions." *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U. S. 476, 492 (1964).

The decisions below in effect hold that § 271 overrules the doctrine of *misuse* as set out in *Mercoid*.

In *Mercoid*, when discussing the *patentee's* right to control unpatented material, the Court found that it made no difference if the unpatented material be the " 'heart of the invention' or the 'advance in the art'," 320 U. S. at 667. Control of such material was *misuse*.

35 U. S. C. § 271(c), in defining *contributory infringement*, encompasses the sale of components "constituting a material part of the invention," thereby codifying the earlier judge-made law of contributory infringement and undoing any invalidation of the doctrine that may have resulted in *Mercoid*.

The argument that § 271 was intended to extend a patent's scope to embrace the unpatented "heart of the invention" and thus increase the patentee's immunity from the antitrust laws and the effects of a holding of misuse, however, ignores the constitutional provision from which the patent laws emanate.* The offense in adopting such a construction is no more evident than in the present case.

The Patent Office rejected respondent's attempt to obtain

* The district court here held: "Consequently, after 1952, it became lawful to extend certain monopoly rights over certain unpatented articles, provided such articles constituted a material part of the invention, and were not staple articles or commodities of commerce suitable for substantial noninfringing uses." (App. 44.)

a patent on spark-perforated tape *per se*, thereby establishing that there was no "invention" in spark-perforated tape.

Article I, § 8 of the Constitution states in part:

> "The Congress shall have the power . . . to promote the progress of science and useful arts, by securing for limited times to . . . . inventors the exclusive right to their . . . discoveries."*

The refusal of the Patent Office to grant a patent on spark-perforated tape removes spark-perforated tape from the area excluded by the Constitution from our overriding anti-monopoly policy. There being no "invention" in spark-perforated tape there can be no patent monopoly or "exclusive right" awarded to it.

Respondent, although it was unable to patent the tape, and unless prohibited here, is in a position of being able to monopolize the tape as if it had. It is submitted that such a prohibition is in keeping with § 271(d) but to the extent § 271(d) appears to sanction such an enlargement of the patent grant, it should be declared unconstitutional.**

Respondent has attempted to counter petitioners' assertion that 35 U. S. C. § 271 had no effect on the law of misuse and related antitrust violation by arguing that § 271(d) is expressly to the contrary.

Actually, the rule of § 271(d)(1) that it will not be misuse if the patentee "derived revenue from acts which if performed by another without his [the patentee's] consent would constitute contributory infringement of the patent" is inapposite.

Petitioners do not complain of the fact that respondent *sells* spark-perforated tape even if the selling of such tape

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* In *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488, 492 (1942), the Court substituted " 'new and useful' inventions" for "discoveries" when quoting the constitutional provision.

** 28 U. S. C. A. § 2403 may, consequently, be applicable. The courts below have not certified to the Attorney General that the constitutionality of this section was drawn in question.

by others constitutes contributory infringement. Respondent, however, licenses the patent only when unpatented tape is purchased from a specified source. A purchaser of the unpatented tape has to pay a built in but unknown royalty no matter what he chooses to do with the tape. He gets no refund if the tape is destroyed or shipped from the country. It is this tying arrangement that constitutes an unlawful extension of the monopoly, *i.e.*, a misuse.

Nor does 35 U. S. C. § 271(d)(2) provide the exemption respondent seeks. That section relates to a license "to perform acts" which would otherwise "constitute *contributory infringement*". (Emphasis added.) The license respondent grants with the sale of tape is to perform acts, which if performed without respondent's consent, would constitute *direct* infringement, not contributory infringement.

In the *Salsbury* case, 212 F. 2d at 416-417, the court expressly held that the new law made no change in the law of misuse and equated "staple" article with "unpatented" in the application of that doctrine.

Although petitioner has argued repeatedly below, as here, that it is not necessary to show a non-infringing use of spark-perforated tape to make out a case of misuse, petitioners did introduce a considerable amount of evidence showing that spark-perforated tape did indeed have substantial non-infringing uses. Neither court ruled, however, on the question of whether if it was necessary to show non-infringing uses to establish misuse, such uses had been established.

The ruling of the court of appeals appears to require establishing an antitrust violation before misuse can be made out. This is clearly not the standard. *Morton Salt Co.* v. *G. S. Suppiger*, 314 U. S. 488 (1942).

2. A TYING ARRANGEMENT INVOLVING A PATENT IS A PER SE VIOLATION OF § 1 OF THE SHERMAN ACT.

There exists a substantial diversity of opinion as to what is or should be required to prove an antitrust violation in tie-in cases involving patents. For example, a majority of the members of the committee involved in the preparation of THE REPORT OF THE ATTORNEY GENERAL'S NATIONAL COMMITTEE TO STUDY THE ANTITRUST LAWS, at 238 (1955), were opposed "to the apparent trend" to per se illegality,* while other writers support the per se rule. See Diggins *The Patent-Antitrust Problem,* 53 MICH. L. REV. 1093, 1103 (1955) and Turner, *The Validity of Tying Arrangements Under the Antitrust Laws,* 72 HARV. L. REV. 50 (1958).

Respondent's licensing practice draws to it an advantage in the market place not intended by the patent grant. This advantage exists even though the purchaser may not use the tape in accordance with the patent, since he is in effect gaining a license to the patent, with all its accompanying peace of mind, whether he uses that license or not. He is forced to take a license whether he uses the patent or not—even if he merely ships the tape out of the country. No refund is provided for where he does not use the patent. The user is not informed what the license fee is nor can he get a license except by buying the unpatented tape.

This method of doing business denies competitors free access to the market for spark-perforated tape, the tied product, not because respondent has a better product or a lower price, but because of its leverage over the patented combination and method. Buyers are forced to forego their free choice between competing products. The practice is unlawful under § 1 of the Sherman Act. *Northern Pacific Ry. Co.* v. *United States,* 356 U. S. 1, 5-6 (1958).

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* Also see Oppenheim, *Patents and Antitrust: Peaceful Coexistence,* 54 MICH. L. REV. 199, 213-14 (1955).

The district court, in dismissing the antitrust counterclaim, said:

> "Even if the decree were violated as defendants suggest, and even if spark-perforated tape has substantial noninfringing uses, this may be proof of misuse but this in no way proves any of the elements of monopolization or attempt to monopolize, as is required by Kobe."
>
> "There is no proof of an unlawful intent to monopolize outside its patent rights nor is there proof of power to so monopolize.
>
> "There is no evidence of plaintiff's position in the relevant market, whether the market includes all types of tape or only spark-perforated tape. There is no evidence of an unlawful combination or conspiracy as was found in *Dairy Foods, Incorporated* v. *Dairy Maid Products Coop,* 297 Fed. 2d 805, nor is there evidence of a dangerous probability of accomplishing a monopoly except that which is permitted by the patent.
>
> "There is no evidence of a specific intent to monopolize." (App. 47-48.)

The above quoted standard is contrary to the prevailing authority.

In *International Salt Co.* v. *United States,* 332 U. S. 392 (1947), an antitrust violation was established where International tied supplies of salt tablets to the leasing of its patented tablet dispensing machine. International's market position was not considered. In fact, the district court had assumed that licensees could obtain competitive machines, *United States* v. *International Salt Co.,* 6 F. R. D. 302, 307 (S. D. N. Y. 1946).

The distinctiveness of a patented product is sufficient to establish the necessary control over the tying device. *United States* v. *Paramount Pictures, Inc.,* 334 U. S. 131, 158 (1948).

In commenting on *International Salt, Paramount* and *United States* v. *Columbia Steel Co.,* 334 U. S. 495 (1948)

Professor Turner in his article *The Validity of Tying Arrangements Under the Antitrust Laws*, 72 HARV. L. REV. 50, 51 (1958) stated:

> "For if anything has become clear in the law on restraint of trade, it is that a tie-in to a patented product or process is virtually illegal per se, whether the Clayton Act or Sherman Act is applied."

What would seem to have been a final endorsement of this position was enunciated in dicta in *United States* v. *Loew's, Inc.*, 371 U. S. 38, 45, 46 (1962). When ruling on the legality of block-booking copyrighted motion pictures, the Court alluded to the analogous patent situation saying:

> "The patentee is protected as to his invention, but may not use his patent rights to exact tribute for other articles.
>
> "Since one of the objectives of the patent law is to reward uniqueness, the principle of these cases was carried over into antitrust law on the theory that the existence of a valid patent on the tying product, without more, establishes a distinctness sufficient to conclude that any tying arrangement involving the patented product would have anticompetitive consequences."

Further, where the tying product is patented, "sufficiency of economic power is presumed." 371 U. S. 45, n. 4.

Petitioners argued that *Loew's* was controlling in support of its counterclaim for antitrust violations. The district court, however, in dismissing the counterclaim rejected *Loew's* stating:

> "It is not clear what is meant by a 'tying product.' It could include a material component of an invention not a staple article of commerce suitable for no substantial non-infringing use. In any event, interpolating upon the language of the Supreme Court, it is doubtful that the existence of a valid patent on the tying process, without more, establishes a distinctiveness sufficient to conclude that any tying arrangement, and

> I would underline the word 'any,' between the patented process and a material component of the process, not a staple article of commerce suitable for no substantial non-infringing use, constitutes a per se antitrust violation. *The Loew's case must be read in its context.*" (Emphasis added) (App. 41-42.)

The authority of *Loew's* was again relied upon by petitioners in the court of appeals. Respondent attempted to refute that authority arguing, as it had below, that petitioners had not produced evidence concerning the relevant market and that *Loew's* was distinguishable since it "was not a patent case." Reply and Answering Brief of Plaintiff-Appellant-Appellee, at 73, 74. The court of appeals did not rule on the issue. However, in *Hazeltine Research, Inc.* v. *Zenith Radio Corp.*, ... F. 2d..... (7th Cir. 1967). 156 U. S. P. Q. 229, a decision handed down shortly after the decision in this case, the same court held:

> "There is no merit in HRI's contention that the misuse of its patents, including the one in suit, furnishes no basis for an award of treble damages. The requisite anti-competitive effect is presumed where the tying product is patented. *International Salt Co.* v. *United States,* 332 U. S. 392 (1947). See *United States* v. *Loew's, Inc.,* 371 U. S. 38, 45 (1962). Zenith's expenses in defending the infringement suit brought pursuant to HRI's antitrust violations are a proper subject of threefold recovery. *Dairy Foods, Inc.* v. *Dairy Maid Prod. Cooperative,* 297 F. 2d 805, 809 (7th Cir. 1961)."

It having been established that the only way any end user of spark-perforated tape has ever obtained a license under the patent is by purchase of tape from respondent or one of its licensees, it follows, without more, that respondent has violated § 1 of the Sherman Act.

Under § 4 of the Clayton Act (38 Stat. 731 (1914), 15 U. S. C. § 15) "any person . . . injured in his business or property by reason of anything forbidden in the antitrust

laws . . . shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee."

Petitioner, National, was presented with the alternative of either entering into license arrangements which it considered unlawful or in incurring the expenses that accompanies a patent infringement case. Either alternative had an adverse economic result. See *Dairy Foods Inc.* v. *Dairy Maid Prod. Cooperative,* at 808. Had petitioners chosen to indulge in the conspiracy created by entering into the license arrangements required by respondent, it would at least have had to pay a royalty to respondent, the obvious consequence of which would have been to reduce National's profit by either loss of sales because of increased selling price or reduced profit margin. The alternative chosen has resulted in damages incurred in the defense of the complaint filed by respondent.

3. RESPONDENT HAS VIOLATED THE DECREE OF MAY 15, 1951.

As is more fully set out in the Statement Of The Case, at 4-5, the Government spent almost 11 years attacking and attempting to undo the injury resulting from the scheme fostered by respondent in conjunction with the licensing of its patents. See *United States* v. *United States Gypsum Co.,* 53 F. Supp. 889 (D. D. C. 1943); 67 F. Supp. 397 (D. D. C. 1946); 333 U. S. 364 (1948); 339 U S. 960 (1950); 340 U. S. 76 (1950). The decree that finally resulted from that litigation on May 15, 1951 was the subject of at least three other decisions: *United States* v. *United States Gypsum Co.,* 124 F. Supp. 573 (D. D. C. 1954); *United States* v. *United States Gypsum Co.,* 134 F. Supp. 69 (D. D. C. 1955); and *United States Gypsum* v. *National Gypsum Co.,* 352 U. S. 457 (1957).

Apparently, this overwhelming amount of litigation has

not completely defined just what practices respondent was forbidden from performing.

There appears to be no controversy that as the result of the decree of May 15, 1951, respondent was directed to grant licenses on all patents issued to, applied for or acquired by it within five years after the date of the decree "relating to gypsum board, its processes, methods of manufacture or use. . . ." (Article II, para. 4, App. 54.) Respondent was permitted to charge a reasonable non-discriminatory royalty "which royalty may not be imposed upon or measured by patent-free products, processes or uses. . . ." (Article VI, para. 2, App. 58-59.)

Petitioners charged that respondent's agreements with Marvan and Evon, calling for a royalty based on their sales of tape are, in effect, a "royalty . . . imposed upon or measured by patent-free products" and, consequently, in violation of the decree.

Respondent argued that there was no violation of the decree because spark-perforated tape is not "patent-free" and does not relate to the use of gypsum board.

Neither court below passed on the question of whether spark-perforated tape related to the use of gypsum board. The district court, however, ruled that spark-perforated tape was not "patent-free" and the court of appeals affirmed. The question regarding the construction of the term "patent-free" is that upon which review is here sought.

As the district court noted, "extensive research fails to disclose any legal definition that has been attached to" patent-free. Its use in the "*Gypsum* cases" of the 1940's is apparently its first and only use. Any argument regarding the meaning of the term must, therefore, be based on what remedial effect was intended as a result of the decision that respondent's licenses had regimented the industry.

> "A trial court upon a finding of a conspiracy in restraint of trade and a monopoly has the duty to compel action by the conspirators that will, so far as practicable, cure the ill effects of the illegal conduct, and assure the public freedom from its continuance." *United States* v. *United States Gypsum,* 340 U. S. at 88.

Petitioners contend that "patent-free" is synonymous with unpatented. Respondent, on the other hand, argues that "patent-free" means an unpatented product that is neither made by a patented machine or process or used in connection with a patented combination or method, i. e., it means an unpatented product not related to a patent.

The first use of the term "patent-free" appears in the first Supreme Court decision in the *Gypsum* cases, 333 U. S. at 400 wherein the Court stated:

> "Patents grant no privilege to their owners of organizing the use of those patents to monopolize an industry through price control, through royalties for the patents drawn from *patent-free* industry products and through regulation of distribution. Here patents have been put to such uses as to collide with the Sherman Act's protection of the public from evil consequences. *United States* v. *National Lead Co.,* 332 U. S. 319, 327, 91 L. ed. 2077, 2089, 67 S. Ct. 1634; *Hartford-Empire Co.* v. *United States,* 323 U. S. 386, 406, 89 L. ed. 322, 358, 65, S. Ct. 373; *Standard Oil Co.* v. *United States,* 283 U. S. 163, 170, 174, 75 L. ed. 926, 947, 51 S. Ct. 421; *Standard Sanitary Mfg. Co.* v. *United States,* 226 U. S. 20, 57 L. ed. 107, 33 S. Ct. 9." (Emphasis added.)

Most significantly, the cases cited by the Court as examples of situations where royalties for patents have been drawn from "patent-free" industry products all involve products that were *made by* a patented machine or process. In the *National Lead* case, the Court quoted the finding of the district court:

> "'The defendants NL, DP and Tinc have utilized their patents which relate to the manufacture and use

> of titanium pigments to control and regulate the manufacture and sale of titanium pigments and compounds in the United States. . . .' " 332 U. S. at 327.

In *Hartford-Empire,* the Court condemned the use of patents on glass-making machinery "to maintain prices of unpatented glassware:" 323 U. S. at 407.

In *Standard Oil,* control was exerted over unpatented gasoline produced by patented cracking processes. 283 U. S. at 174.

It is obvious, therefore, that as used by the Supreme Court, the term "patent-free" does not carry the meaning ascribed to it by respondent.

That the decree was intended to prohibit more than just the type of licenses that had been condemned was made clear by the Court when it reviewed the district court's first decree after remand. The decree

> "is not limited to prohibition of the proven means by which the evil was accomplished, but may range broadly through practices connected with acts actually found to be illegal." 340 U. S. at 88-89.

And

> "Acts in disregard of law call for repression by sterner measures than where the steps could reasonably have been thought permissible. We turn then to the Government's proposals for modification of the decree on the assumption that only a violation through concerted industry license agreements has been proven, but recognizing, as is conceded by defendants, that relief, to be effective, must go beyond the narrow limits of the proven violation." 340 U. S. at 89-90.

The most often used arrow in respondent's quiver has been that "patent-free" could not mean unpatented because the court that entered the decree also approved an interim license (App. 64-68) which allowed for the basing of royalties on products made by a patented process and, sup-

posedly under the definition of "patent-free" advanced by petitioners, the court-approved interim license would itself be in violation of the decree.

Whether or not this is the case is at its very best speculative. It is perhaps of interest to note that the interim license was submitted to the district court on the day the decree was approved.* The ambiguity that now exists through the use of the term "patent-free" and the effect that the interim license may have had on the construction of that term may have been so subtle as to escape comment.

In any event, and whether or not the district court intended to limit the Supreme Court's definition of "patent-free" by the interim license, it cannot be argued that the district court's "approval" to allow respondent to measure royalties by products *made by* a patented process is consent to allow respondent to measure royalties by products *used in* patented combinations such as in the present case where the unpatented spark-perforated tape can be *used in* the combination and method covered by respondent's patents.

It is evident, therefore, that the decree of May 15, 1951, by prohibiting the measuring or imposing of a royalty on "patent-free products, processes or uses" forbids respondent from basing the royalty for licensing its patent on the sale of spark-perforated tape.

Violation of the decree should at least result in the unenforceability of respondent's patent. See *American Securit Co.* v. *Shatterproof Glass Corp.*, 154 F. Supp. 890, 896 (D. Del. 1957), aff'd 268 F. 2d 769 (3rd Cir. 1959).

---

*The record of that case indicates that a copy of the license may have been attached to the decree and submitted to the court ten days earlier. However, there is no indication that the interim license was considered or discussed by the court.

4. THE VIOLATION OF THE DECREE CONSTITUTES A VIOLATION OF THE ANTITRUST LAWS FOR WHICH RESPONDENT IS LIABLE FOR DAMAGES.

It is petitioners' position that respondent's violation of the May 15, 1951 decree, which decree was entered to remove the anti-competitive effects of respondent's licensing schemes, is a direct trespass on the monopoly area defined by this Court.

The elements of proof required by the trial court were established in the first decision by the Supreme Court in the *Gypsum* cases. As it was stated in the second Supreme Court hearing of the matter, the decree was to "cure the ill effects of the illegal conduct, and assure the public freedom from its continuance." 340 U. S. at 88.

The violation of the decree, therefore, admits to the rebirth of the illegal conduct, particularly where the violation is capable of causing the same "ill effects." Consequently, the violations of the antitrust laws found before are the same violations now charged.

Had petitioner, National, taken the same license offered to Marvan and Evon it would have been in the same co-conspirator position that it was in the *Gypsum* cases, and once again respondent would have been well on its way to regimenting the industry. As was stated above in the discussion of damages, petitioners were faced with the unhappy choice of taking the license or defending the lawsuit. Where the choices are dictated by a violation of the antitrust laws, respondent should be liable for the damages incurred.

CONCLUSION.

For the reasons set forth above, petitioners respectfully request that a writ of certiorari issue to review the decision of the Seventh Circuit Court of Appeals.

Respectfully submitted,

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30 West Monroe Street,
Chicago, Illinois 60603.

February 5, 1968.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1967.

No. 1084

NATIONAL GYPSUM COMPANY AND
PLAZA PLASTERING COMPANY,
Petitioners,

vs.

UNITED STATES GYPSUM COMPANY,
Respondent.

APPENDIX TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

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Chicago, Illinois 60603,
Attorneys for Petitioners.

February 5, 1968.

THE BUNTHORP-WARREN PRINTING COMPANY, CHICAGO

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APPENDIX TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

IN THE UNITED STATES COURT OF APPEALS.

For the Seventh Circuit.

September Term, 1966 April Session, 1967

Nos. 15126, 15127

UNITED STATES GYPSUM COMPANY, *Plaintiff-Appellee and Appellant,*

vs.

NATIONAL GYPSUM COMPANY, *et al., Defendants-Appellants and Appellees.*

Appeals from the United States District Court of Northern Illinois, Eastern Division.

October 2, 1967

Before KNOCH, SWYGERT and FAIRCHILD, *Circuit Judges.*

FAIRCHILD, *Circuit Judge.* United States Gypsum Company sued National Gypsum Company and Plaza Plastering Co. for infringement[1] of the Gill patent.[2] The district court found the patent valid but not infringed. All parties appealed.

---

1. Contributory infringement and actively inducing infringement are averred against National.

2. No. 2,749,267, "Method of Covering the Joint Between Wallboard and the Resultant Product," issued June 5, 1956 to Joseph W. Gill (and another whose name was improperly included and has since been removed), and assigned to plaintiff.

We conclude that the district court misconstrued the patent, that the patent was infringed if valid, and that the cause should go back to the district court to consider and determine certain issues as to validity, after supplementary trial if deemed necessary.

The patent contains five claims, the first to a combination and the other four to methods, the parties and the district court having usually treated claim 5 as representative of the method claims. All claims concern the art of producing smooth, seamless joints in walls made of wallboard.

Drywall construction is presently used in over 70 percent of residential construction. Large sheets of wallboard are nailed to studding to form interior walls. Where two sheets join, the industry has for a long time used a cement or "mud" and strips of bridging material such as cloth, metal, or paper. Machines are widely used to apply the tape. Those machines generally apply the cement to the back of the tape just before the tape is placed along the joint. Later a top coat cement is applied to make the joint smooth and indistinguishable from the rest of the wall.

The several types of tape met with varying difficulties. Loosely woven cloth tape did not have sufficient transverse strength. Smooth metal tape did not form a solid bond with adhesives. Metal tape with holes allowed the cement to exude through the holes and harden into "keys" which helped to hold the tape tight, but required sanding. Paper tape with punched holes often caused the pattern of holes to show through the finishing coat, and when used in the taping machines caused difficulty because the adhesive came through the holes before the tape was on the wall. Perforation by punching often left burrs, and nodules of cement were likely to form on the surface of the tape away from the wall. Paper tape without perforation

was also used some years ago, but apparently blisters will form unless there is some way for the air to escape.

The Gill patent is directed at a particular kind of tape, with minute perforations, to be used on wallboard joints, although four claims pertain only to a method of using it, and in claim 1, the tape itself is patented only as one element of a combination. The patent office had refused to patent the tape alone and the machine devised for producing it.

Claims 1 and 5 of the Gill patent are:

> "1. The combination with wallboards attached to a support and having edges in substantially abutting relationship forming a wallboard joint, of a strong thin cellulosic strip having perforations throughout with diameters from about 0.02 inch to 0.002 inch, said strip being adhesively secured over said joint and the edges of said wallboards adjacent thereto.
>
> "5. The method of covering the joint between adjacent wallboards which comprises adhesively securing over said joint a strip of strong paper provided with substantially uniformly arranged spark-produced perforations having diameters from about 0.02 inch to 0.002 inch to permit the escape of air entrapped beneath said strip while substantially preventing the escape therethrough of adhesive employed to secure the strip in place."

Infringement.

The district judge first addressed himself to the question of infringement. It is clear that National has produced and sold spark perforated paper tape for use on wallboard joints and that Plaza has so used it, all without license under the Gill patent. It also appears that National's management knew of the patent and considered that there would be infringement if the patent were valid. The court, however, considered the National

tape sufficiently different from the tape described in Gill so that its use did not infringe. The conclusion was based on an interpretation of Gill in three particulars which, with all respect, we consider erroneous.

Claims 1, 2, and 5 state that the perforations in the tape have "diameters from about 0.02 inch to 0.002 inch . . .". Claim 3 says "diameters from substantially 0.02 inch to substantially 0.002 inch", and Claim 4 says "diameters of substantially 0.005 inch".

Elsewhere, in the specifications, Gill explained: "The perforations, resulting from the high potential spark passing between pairs of electrodes are minute, averaging about .005 inch in diameter, generally within the range of from .002 inch to .02 inch in diameter. Many of the openings are somewhat elongated or oval, and the diameters specified are the average diameters arrived at by averaging the minimum and maximum dimensions of the openings."

The perforations in a sample of National tape ranged in average diameter from a maximum of .0168 inch to a minimum of .0024 inch, all within the range indicated by Gill. The overall average was .0073 inch, larger than the .005 inch average indicated by Gill. This difference in the overall average was considered significant by the district judge. We disagree.

Claims 1, 3 and 4 refer to "perforations throughout". Perforations in the sample of National tape, which was 2-1/16 inches wide, did not occur, generally, within the outer half-inch (approximately) on either side. The district judge construed "throughout" in the claims as requiring the perforation to appear throughout the complete width of the tape. Claims 2 and 5 refer to "substantially uniformly arranged" perforations. The district judge noted a description of the National tape: "The perforations appear to be arranged roughly in six rows, although the

pattern seemed almost random and was not too uniform," and recalled his own observation "that it was arranged in rows as though it were fanned in a pattern."

Statements by Gill in the specifications make it clear that the expression "throughout" did not mean that the perforations must be distributed close to and up to each edge of the tape. Using tape with the common width of 2-3/16 inches, the suggested distribution would leave a margin, without holes, of 15/32 inch along each edge. This is very close to the half inch margin in the National tape.

It is also said:

> "The hole spacing and pattern in the tape are erratic. This results from the fact that the path of the sparks between pairs of electrodes varies considerably, due primarily to the lack of uniformity of the electrical resistance or conductivity on the tape itself."

The material just quoted shows that the phrase "substantially uniformly arranged" did not contemplate the symmetry and exactness of pattern which the district judge seems to have found essential.

Against the prior art background of punch perforated holes, the gist of the invention (if all tests of invention be met), was the use of tape with much smaller spark produced holes. The differences in average size of the perforations and in the exact pattern of distribution do not seem to us to warrant the significance accorded by the district judge.

We conclude that if the patent was valid, it was infringed.

Defendant raised several issues which require further consideration.

Obviousness.

The district judge recorded his opinion, and elected to have it serve as findings of fact and conclusions of law.

He correctly concluded that the prior art did not anticipate the Gill patent. He did not, however, address himself to the issue of obviousness under 35 U. S. C. sec. 103, although in fairness it should certainly be observed that his decision was given before the decision of the Supreme Court of the United States in *Graham* v. *John Deere Co.*[3]

The analytical steps which a court must take in order to determine the issue of validity under sec. 103 have now been clearly set forth in *Graham:*

> "... Under § 103, the scope and content of the prior art are to be determined; differences between the prior art and the claims at issue are to be ascertained; and the level of ordinary skill in the pertinent art resolved. Against this background, the obviousness or nonobviousness of the subject matter is determined . . ."[4]

For the reasons indicated in *Cloud* v. *Standard Packaging Corporation*[5] we think it the sounder procedure for the determination of this issue to be made initially in the district court.

The issue whether the invention is obvious must, of course, be determined with respect to the invention as construed by this opinion.

Public use.

Defendants averred that the invention was in public use more than one year before March 30, 1950, and produced evidence which they contended would support that claim. Plaintiff contends that any use of its own was experimental

3. (1966), 383 U. S. 1, 86 S. Ct. 684, 15 L. Ed. 2d 545.
4. Id. at page 17.
5. (7th Cir. 1967), 376 F. 2d 384, 391.

and not public. The district judge so decided, and we think the finding was not clearly erroneous. The district judge also decided there had been no prior public use by others, but very clearly limited his decision to the invention as he had restrictively interpreted it in his decision of the infringement issue. Thus the issue with respect to prior public use by others will be open for decision upon remand.

Misuse.

Defendants averred that plaintiff has misused the patent and in bringing suit was attempting to obtain a monopoly in the sale of unpatented tape with perforations of .002 inch to .02 inch in diameter.

Defendants appear to contend that a finding of misuse must follow from the fact that when plaintiff sells its own unpatented spark perforated tape it grants a license to use it under the Gill patent.

But it appears that plaintiff does license others who desire to use tape not produced by plaintiff. As we understand the relevant doctrine of misuse,[6] there could be no misuse if the terms on which a license is available to those wishing to use tape manufactured by others are reasonably comparable to the terms for one who uses the patentee's tape. Success on defendant's claim of misuse would require at least a finding that plaintiff restricts licensing for the purpose of compelling the use of its own tape.

Alleged anti-trust violation.

Plaintiff is subject to a decree entered in 1951 in an action by the United States to enforce the anti-trust laws. The decree required plaintiff to grant licenses on certain patents, and restricted the royalties. Plaintiff has granted

6. See *Mercoid* v. *Mid-Continent Investment Co.* (1944), 320 U. S. 661, relied on by defendants.

licenses under Gill and the royalties are measured by the amount of tape used. Defendants claim this is a violation of the decree, and necessarily, therefore, a violation of the anti-trust laws, so that defendant can recover treble damages, the provable damages being attorneys' fees in this action.

To put their theory together, a violation of the decree must be, per se, a violation of an anti-trust law, the Gill patent must be one "relating" to the "use" of "gypsum board", and the tape must be a "patent-free" product.

The district judge, having noted and passed by the question whether the Gill patent, relating to the use of wallboard generally, can be said to be a patent relating to the use of gypsum board, concluded that since tape is used as a component of a patented process, it is not patent-free as the term was used in the decree even though unpatented. A seemingly consistent contemporaneous construction of the term by the court which issued the decree was noted. We agree with the conclusion of the district judge. Moreover, the decree did not merely forbid acts which are violations of the anti-trust laws and it does not follow that a violation of the decree is necessarily a violation of an anti-trust law so that treble damages would ensue.

The judgment appealed from will be reversed and the cause remanded for further proceedings consistent with this opinion.

UNITED STATES COURT OF APPEALS,

For the Seventh Circuit,

Chicago, Illinois 60604.

Monday, October 2, 1967.

Before

Hon. Win G. Knoch, Circuit Judge,
Hon. Luther M. Swygert, Circuit Judge,
Hon. Thomas E. Fairchild, Circuit Judge.

UNITED STATES GYPSUM COMPANY, *Plaintiff-Appellee and Appellant,*

No. 15126, 15127 *vs.*

NATIONAL GYPSUM COMPANY, et al., *Defendants-Appellants and Appellees.*

Appeals from the United States District Court for the Northern District of Illinois, Eastern Division.

This cause came on to be heard on the transcript of the record from the United States District Court for the Northern District of Illinois, Eastern Division, and was argued by counsel.

On consideration whereof, it is ordered and adjudged by this court that the judgment of the said District Court in this cause appealed from be, and the same is hereby, REVERSED, and that this cause be, and it is hereby REMANDED to the said District Court for further proceedings consistent with the opinion of this Court filed this day.

It is further ordered and adjudged by this Court that the costs in these appeals be divided equally between the parties.

UNITED STATES COURT OF APPEALS,

For the Seventh Circuit,

Chicago, Illinois 60604.

Thursday, December 21, 1967.

Before

Hon. Win G. Knoch, Sr., Circuit Judge,
Hon. Luther M. Swygert, Circuit Judge,
Hon. Thomas E. Fairchild, Circuit Judge.

UNITED STATES GYPSUM COMPANY, *Plaintiff-Appellee-Appellant,*

No. 15126-7 *vs.*

NATIONAL GYPSUM COMPANY, et al., *Defendants-Appellants-Appellees.*

Appeals from the United States District Court for the Northern District of Illinois, Eastern Division.

This matter came before the Court on the motion of counsel for plaintiff, United States Gypsum Company, to recall and correct mandates, defendants', National Gypsum Company, et al., response to said motion and the reply to said response.

This Court entered its order on December 12, 1967 directing that the judgment be corrected in accordance with the said order. Therefore, pursuant to said order the judgment of the Court heretofore entered on October 2, 1967, is hereby corrected to read as follows:

IT IS ORDERED and adjudged by this Court that the judgment of the said District Court dismissing defendants'

counterclaims, in this cause appealed from by defendants, National Gypsum Company, et al., be, and the same is hereby affirmed.

IT IS FURTHER ORDERED and adjudged by this Court that the said judgment of the District Court dismissing the complaint appealed from by plaintiff, United States Gypsum Company, and appealed from in part by defendants, National Gypsum Company, et al., be, and the same is hereby reversed.

IT IS FURTHER ORDERED and adjudged by this Court that this cause be, and the same is hereby remanded to the said District Court for further proceedings consistent with the opinion of this Court filed this day.

IT IS FURTHER ORDERED and adjudged by this Court that the costs in these appeals be divided equally.

1 IN THE UNITED STATES DISTRICT COURT

* * (Caption—59-C-896) * *

Before the Hon. James B. Parsons, Judge.

December 7, 1964,
3:00 o'clock, p.m.

* * * * *

2 The Court: The parties may wish to remain seated because it will take me a few minutes to read into the record my ruling. The reason I am reading into the record the ruling is because it is the result of work up to and including the last minute and I have not had an opportunity to have it typed for me for counsel, but at the same time, also I intend to ask counsel to submit the proposed findings of fact and conclusions of law before I do a final memorandum in the matter and for that reason I am reading it into the record.

In the course of trying a protracted and difficult patent case, the Court is ever attended by the admonition that patent rights are matters concerning far more than the interests of the adverse parties. They involve issues of great public interest. *Hi-Lo TV Antenna Corp.* v. *Rogers, et al.*, d/b/a Midwest Naturlite Co., 274 F. 2d 661, Seventh Circuit, a 1960 case.

3 The patent system, through the promotion of useful and important inventions, constitutes a prominent factor in the development of the American way of life. At the same time, it is one of those rare but substantial departures from the common law prohibition against monopolies.

Here I rely from time to time fortunately upon the kindness of defendants to allow me a rather complete statement

of facts and some rather interesting language. I do not call it plagiarism from this perspective but, nevertheless, I do acknowledge that this is in part from Page 1 of the defendants' brief.

The design of the patent laws is to reward those who make some substantial discovery or invention which adds to our knowledge and makes a step in advance in the useful arts. Such inventors are worthy of all favor.

At the same time, it was never the object of those laws to grant a monopoly for every trifling device, every shadow or shade of an idea. Citing *Atlantic Works* v. *Brady*, 107 U. S. 192, an 1883 case.

4 With never the idea of compromising the divergent positions of the contestants, the trier of fact in these cases must never lose sight of the duty of balancing these two extremes in the fundamentals of a modern society to the end that detriments to society inherent in the giving away of one be doubly weighted by the advantages attained by society in the other. The instant case, I think, is a classic example of the extreme to which this balancing play can be put.

This suit involves the validity of United States Patent 2,749,267 granted to Joseph W. Gill and Charles Raisel Southwick and assigned to the United States Gypsum Company, and the alleged infringement of that patent by National Gypsum Company and an ultimate user of the same or a similar type of tape by the name of Plaza Plastering Corporation.

To keep the record straight, I here reiterate that this court has jurisdiction over the parties and the subject matter of the suit, that I reaffirm my memorandum and order heretofore entered and attach hereto as Appendix I,

5 denying defendants' motion for summary judgment and, in accordance with my memorandum filed herein,

6 attached hereto as Appendix II, I herewith enter my order dismissing defendants' counterclaims. The case has gone to trial on the complaint and answer. Witnesses testifying over many days have been heard attentively, hundreds of exhibits admitted into evidence have been studied carefully, designated portions of depositions, running into thousands of pages, have been read and reread, briefs and oral arguments have been studied and considered in their entireties. I am prepared to decide the case.

The patent in issue, Gill, et al., -267, is one of a number of patents which have been issued during this century concerning the dry wall industry, and in particular Gypsum wallboard and related products. Wallboard has found great acceptance as an economical alternative to lath and plaster interior wall construction. It has been estimated that wallboard is used in approximately 70 per cent of the homes built in America today.

Gypsum wallboard is manufactured primarily in 4-foot widths in lengths up to 16 feet. The parties to this suit
7 are the leaders in the industry. Normally, wallboard is hung at the job site by being nailed to wood studding or supports. In manual application, a smooth, noninterrupted surface is provided by filling the space or joint between adjacent wallboards with cement or other similar adhesive. Applicators refer to this substance as the "mud". This substance, however, would be ineffective were it not for the use of some bridging material, cloth, metal, paper, etc., in strips, which, attaching because of the "mud" to abutting edges of adjacent wallboard, holds them together into a continuous wall surface. This bridging material, generally now a tape, usually is applied through tools, such as one called the Ames tool, already coated with the adhesive cement. In either the manual or the automatic operation, the tape is applied to span the

joint and is imbedded in the cement with a trowel or knife to insure the performance of the filler. A top coat of cement is applied over the tape, once the tape has bonded, and then this top coat is "feathered" out to present a smooth surface. Usually the abutting edges of wall-
8 board are sufficiently recessed to accommodate to a smooth surface the tape and cement, and aiding in this accommodation, recent tapes have "beveled" edges. If there is a gap in the first coat of cement, the application of the top coat may cause the tape to bubble or blister, thereby creating an irregularity or bump on the completed wall surface. It is to remedy this situation that Gill, et al. -267 purportedly is directed. Much of this description of this type of wall construction is borrowed by the Court from defendants' briefs.

In a single sentence, the Gill patent is a process of tape application utilizing a tape perforated by electric sparks with holes large enough to permit the escape of entrapped air, but small enough to prevent the escape of the cement.

The use of tape to cover the crack between adjacent sections of wallboard is almost as old as the use of wallboard itself. In the 1920's, a strip of loosely-woven cloth was applied with a casein base adhesive. Taping contractors next turned to a metal tape having holes
9 approximately 1/16 inch in diameter. In 1936, National Gypsum began selling a tape referred to as "balloon cloth tape", having approximately 25,000 holes per lineal inch, ranging in size from .002" to .02" in diameter. These early cloth tapes proved unsuccessful because they had low transverse tensile strengths and high stretch, permitting ruptures and cracks to form in the decorative coatings.

Smooth metal tape did not bond well with the adhesives then in use. To rectify this problem, metal tape was then supplied with large holes which allowed the cement to

exude through them, providing thereby a mechanical key, which supplemented the otherwise inadequate bonding strength. This tape had disadvantages which outweighed its advantages. The mechanical "keys" had to be buffed down before a top coating could supply a smooth finish.

In the late 1930's, paper of improved transverse strength became available and replaced metal tape. United States Gypsum patented a paper tape patterned after the perforated metal tape—a punch perforated tape which, except for the disadvantages of the "keying" effect experienced with the metal tape, was a substantial step forward in the industry.

In the 1940's, with the development of the speed applicator, the automatic taping machine, the problem of the oozing of cement through the 1/16" punched holes of the tape became a serious problem to the demand for increased speed in wallboard construction. And in the Ames Taping Tool developed by one Stanley Ames, in which the tape is fed through a "mud box" where a layer of cement is placed on the down side of the tape, and the tape is then rolled out directly on the joint to be covered, the cement exuded through the punched holes before the tape was applied, and created an undesirable messy operation.

Ames and others began calling for a tape-paper tape—without the holes. The W. L. Mackey Company began supplying a plain, unperforated paper tape. Plain tape went into widespread use. In the meantime, spark perforation of paper was being worked on for various uses. Even United States Gypsum obtained a patent on a wall construction involving a covering containing perforations produced by small electric arcs. A Californian, one John W. Meaker, obtained a patent on spark perforation of paper, and, in late 1947, offered to assist United States Gypsum in developing a paper with spark

perforations. A Mr. Wilsey soon obtained a patent for spark perforating a paper used in making bags and packages.

In the meantime, Dr. Joseph W. Gill, the head of Research Engineering at United States Gypsum, began himself experimenting with the development and use of a spark perforated paper for taping wallboard joints. By late 1947, he had developed a spark perforated paper which he felt would best meet the needs of the industry. Apparently, National Gypsum was working on the idea at about the same time, though there is imposing evidence that National never did itself seek to develop this tape, but rather, and later in 1952, acquired the interests of a Wesco Water Paints Company, which had developed but not patented a spark perforated tape.

12 Dr. Gill's trouble came with developing a machine which could manufacture his tape in commercial quantities and with economy. Late in 1947, he presented his problem to USG's project engineer, a Charles Southwick, who finally developed a machine. In 1950, application was filed jointly by Gill and Southwick for a patent on the machine and the tape. This application was rejected. A new application was filed, and it eventually was abandoned in June of 1956, after a patent was issued on a continuation of the 1950 application, which now embraced the process of applying a spark perforated tape to wallboard construction. It was a combination or method patent. It did not cover the machinery at all. Accidentally, and the Court is convinced that it was purely and simply an inadvertence, Southwick's name was left on the continuation and he appeared as joint inventor with Dr. Gill on the patent which eventually did issue. If the patent in suit is an invention, this harmless and unintended error should be corrected.

The two claims of the patent in suit which are
13 material to this litigation read as follows:

"1. The combination with wallboards attached to a support and having edges in substantially abutting relationship forming a wallboard joint, of a strong thin cellulosic strip having perforations throughout with diameters from about 0.02 inch to 0.002 inch, said strip being adhesively secured over said joint and the edges of said wallboards adjacent thereto.

"5. The method of covering the joint between adjacent wallboards which comprises adhesively securing over said joint a strip of strong paper provided with substantially uniformly arranged spark-produced perforations having diameters from about 0.02 inch to 0.002 inch to permit the escape of air entrapped beneath said strip while substantially preventing the
14 escape therethrough of adhesive employed to secure the strip in place."

The evidence shows that at least as early as 1952 the defendant National Gypsum had available to it a form of spark perforated tape, and began sale of it subsequent to that date.

Two factors are important about National's dealing in spark perforated tape. (1) National's indemnification agreements in evidence, made with ultimate users of its spark perforated tape, are dated December 2, 1957, June 17, 1958, and June 16, 1959, all of which dates are subsequent to the issuance of the Gill patent. And (2) the spark perforated tape made and sold by National differs in major matters from that manufactured and sold by United States Gypsum pursuant to its patent. This matter will be discussed at this time, for, I think it is exceedingly important to this case. I realize that since it would seem that infringement presupposes validity, that validity should be determined first. However, this pretermits the
15 language of Paragraph 1 of Title 35, United States

Code, Section 282. Logic, together with the inherent burden on the plaintiff on the issue of infringement, even without indulging in a presumption of validity, dictates the determination of this issue first. *Automatic Arc Welding Co.* v. *A. O. Smith Corp.*, 50 F. 2d 740, 742, a Seventh Circuit case which supports me in that approach. If there is no infringement, the question of validity need be reached only as an accommodation to the public that the ghost of that issue be disposed of. *Marasco* v. *Compo Shoe Machinery Corp.*, 325 F. 2d 695, and other cases cited. See also, *Sinclair & Carroll Co.* v. *Interchemical Corp.*, 325 U. S. 327, 330 (1945). Accord, *W. R. and John Barnes Co.* v. *International Harvester Co.*, 51 F. Supp. 254 (N. D. Ill. 1943); *Barry* v. *General Tire and Rubber Co.*, 31 F. Supp. 879 (N. D. Ill. 1940); *Langsett* v. *Marmet Corp.*, 231 F. Supp. 759 (W. D. Wis. 1964).

There is no doubt about the fact that this is a narrow art, and each invention within it necessarily must be narrowly limited to the closest boundaries of the claims, as they are read in the light of the specifications. It is well established that in this type of art, patent infringement exists only when the accused device and the teachings of the patent in suit are substantially identical in structure, mode of operation and results accomplished. *Graver Tank & Mfg. Co., Inc.* v. *Linde Air Products Co.*, 339 U. S. 605, 607, 608-610 (1950). *Universal Match Corp.* v. *New Castle Products, Inc.*, 308 F. 2d 842, 846 (7th Cir. 1962); *Schirbatskoy* v. *United Steel Corp.*, 287 F. 2d 552, 558 (7th Cir. 1961).

16

In order to decide whether there is an infringement of a patented device, it is necessary to determine which portions of the patented device really do the work. Indeed, a device which is merely within the lessons of the prior art does not thereby infringe, for the mere reading of claims of a patent in suit upon an accused structure or

method does not and cannot, in a narrowly construed patent, connote infringement unless there is functional and compelling equivalency. *Casco* v. *Sinko,* 116 F. 2d 119 17 (7th Cir. 1940), cert. denied, 312 U. S. 693; *Apex* v. *Maytag Co.,* 122 F. 2d 182 (7th Cir. 1941), cert. denied, 314 U. S. 687; *Hall* v. *Montgomery Ward & Co.,* 57 F. Supp. 430 (N. D. W. Va. 1944). Even the mere application of claim phraseology, or the word by word correspondence, is not alone enough to establish infringement. *Flowers* v. *Austin-Western Co.,* 149 F. 2d 955, 958 (7th Cir. 1945). *Independent Pneumatic Tool Co.* v. *Chicago Pneumatic Tool Co.,* 194 F. 2d 945, 947 (7th Cir. 1952); *North Star Ice Equipment Co.* v. *Akshun Mfg. Co., et al.,* 301 F. 2d 882, 886 (7th Cir. 1962). Certainly, where the basis of an invention lies in a critical relationship of parts represented by mathematical formula, embodied in the claims in suit, they will be held not to be infringed by a structure in which the parts do not bear critical relationship to each other. *Mackay Radio & Telegr. Co.* v. *Radio Corp.,* 306 U. S. 86 (1939). *National Bronze & Aluminum* v. *Permold,* 111 F. 2d 69, 70-71 (6th Cir. 1940). *Industrial Instrument Corp.* v. *The Foxboro Company,* 18 307 F. 2d 783 (5th Cir. 1962); *Stewart Warner Corp.* v. *Lone Star Gas Company,* 195 F. 2d 645 (5th Cir. 1952).

In the case at bar, the plaintiff claimed and assumed that it had proved that defendant Plaza Plastering Company had directly infringed the Gill, et al., patent by using National's spark perforated tape in the claimed method and combination. Defendant National was charged with actually inducing Plaza and others to infringe by using National's spark perforated tape. In each instance, it was incumbent upon the plaintiff to show by clear and unequivocal evidence that the tape made and sold by National conformed to the description of the tape element set forth

in the claims of the Gill, et al., patent. As stated above, in a combination or method claim in a crowded art, every element or step is deemed essential, and the omission of a single important element precludes infringement. *Rowell* v. *Lindsay*, 113 U. S. 97, 102 (1885). *Power Curber, Inc.* v. *E. D. Etnyre & Co.*, 298 F. 2d 484, 494 (4th Cir. 1962); *Guide* v. *Desperak*, 249 F. 2d 145, 147 (2d Cir. 1957).

In the Power case, the Court said:

> "The patent in suit is a combination patent and to establish infringement the plaintiff must show that every essential element of the combination, or its equivalent, is embodied in the accused machine. However, since every element of the plaintiff's combination is old and known to the prior art, infringement is avoided if any essential element of the combination, or its equivalent, is omitted by the defendants. See the recent decision of this court in *Entron of Maryland, Inc.* v. *Jerrold Electronics Corporation*, 295 F. 2d 670 (4th Cir. 1961), and cases therein cited."

Plaintiff asserts the importance of perforated tape in the claimed method and combination in performing the function of letting the air escape. Assuming without here deciding that plaintiff's tape does just that, there is no proof whatsoever that National's tape does just that. To the contrary, the claims quoted above require that the perforations be "throughout" the paper.

Presumably, the perforating electrodes are, for the plaintiff, set so that perforations occur all over the tape, from edge to edge, including the parts that are beveled. I speak here not of plaintiff's tape in evidence. I speak of the representations of the patent. I am not convinced that plaintiff's tape in evidence follows strictly the Gill, et al., patent, or that it would be Gill tape, as I have limited Gill in its application. Of this I am convinced and beyond a reasonable doubt. An examination of National's tape re-

vealed to me, clearly and unequivocally, that the perforations were concentrated in the center half of the tape, and that the edges were relatively free of perforations. There is no reason to suppose that air would be any less trapped in the outer quarters of the tape than in the inner half,
21 since the spreading or smearing process of application would have a smoothing effect upon the whole of the tape. In fact, as I watched the experiments on the controlled device presented by the defendant, I was convinced that if entrapped air would likely occur, it would more likely occur on the outer quarters of the tape than on the inner half, since there was at all times an excess of cement which had an outward and downward movement as the blade swept across the tape.

Paul B. Myers, an employee of United States Gypsum, given the task of analyzing the tape manufactured by National, testified as follows:

"Q. Then do I understand that the perforations were found only in the center approximately half of the tape?

A. I guess I—I shouldn't say 'I guess'—I think the majority of those would be within the, about the center half, yes, sir.

Q. So there were none in the outer half-inch on either side?

22 A. No, sir, I could not say that there were none there. As a matter of fact, this particular sample I just held up to the light does have some one or two, or a very small number out within the half inch of the edge.

Q. But for all practical purposes, they were concentrated in the center half rather than being throughout the paper?

A. For practical purposes, yes, sir."

Claim 5 of the Gill, et al., patent calls for a tape having uniformly arranged perforations. An analysis of Na-

tional's tape made by United States Gypsum states: "The perforations appear to be arranged roughly in six rows, although the pattern seemed almost random and was not too uniform."

23 The Court recalls looking at the National tape and finding that it was arranged in rows as though it were fanned in a pattern.

Claims of the Gill patent restrict the perforations to .005 inches. The average diameter of the perforations of National's tape is reported to be .0073—one and one-half
24 times larger than the claims of the patent in suit suggests. Any arrangement of perforations of any size which in arrangement and size would differ from the strict and literal reading of the claims of Gill would be free and non-infringing.

In view of the foregoing, I am compelled to find that regardless of the suggested utility of spark perforation, if there be utility read from the language of the claims it must be reflected in the breadth and exactness of the claims, and the defendant's tape does not violate either. It is neither as broad or as exact. And in this field of technology, if there is to be utility, it cannot be offended by structures which differ 100 per cent on the one hand and 150 per cent on the other. This is particularly true here where the Patent Office refused a patent on the broad basis of the original application as to spark perforated tape, and the manner of manufacture, and then limited Gill, et al., to a narrowly defined tape used in a particular combination and method.

I find there to have been no infringement, actual,
25 direct or procured.

This leaves me with the question of validity. Is Gill a patent of a combination or method, which, considering the art at the time, was an invention and was patentable? I think it was.

I am convinced that in a patent infringement case the plaintiff has the burden of proving that it owns the patent in suit and that the defendants have infringed it, and that where the defendants in answer allege invalidity, the burden upon mere proof of ownership shifts to the defendant to go forward with the evidence. Section 282 of Title 35, United States Code, provides:

> "A patent shall be presumed valid. The burden of establishing invalidity * * * shall rest on a party asserting it."

Defendant's principal argument on invalidity relates to the Crandell patent 2,064,784, which defendants consider anticipating prior art. This is the balloon cloth tape. I cannot agree.

26 There is no question about the fact that balloon cloth was just cloth. It lacked tensile strength. It lacked those controls in holes which would provide for universal and commercial use of the extent contemplated by the industry, and it did not contain perforations.

Semantically and otherwise, there is a difference between holes in cloth left by the process of weaving threads together and holes in paper perforated mechanically under conditions which yield to consistent control.

Defendant argues that wallboard tape having holes that permit air under the tape to escape is old and there is no invention in changing the size of the holes.

But passing air while at the same time retaining cement is a process of which cloth tape is highly incapable when compared to paper tape.

The arguments of defendants on this topic are not convincing, and no evidence was submitted adequate to meet the burden cast upon defendant to justify denying to
27 plaintiff the inventiveness of the patent in suit over the older cloth tapes.

The same situation holds with regard to the earlier metal and punch perforated tapes, and I find defendants have failed to meet their burden on these items of alleged prior art also.

Defendants urge that unperforated tape passes air with relative equivalence to spark perforated tape, and in extended experimentation in court sought to establish under controlled circumstances that to a scientific certainty this fact was true.

I viewed with great interest these experiments and I am convinced that grave doubt remains with me as to whether these tests can reproduce the actual performance of different tapes in practical day-to-day use. At least the issue is left with the trier of fact as problematical.

As was stated in *Medusa Concrete Waterproofing Company* v. *Ceresit Waterproofing Company, et al.*, 271 F. 122, 123:

"Laboratory tests cannot turn the balance in the 28 scale against practical use."

These factors converge with evidence of increased and eventually almost exclusive use of spark perforated tape throughout the industry to cause this court to find that the patent in suit had invention and utility.

Specificity of invention does not militate against validity. Neither does simplicity of invention. *Harris* v. *National*, 171 F. 2d 85.

One who achieves significant functional improvements in a mechanism or process already in some form of use need not be barred from patent protection merely because the result was attained by a simple innovation or change. *Universal, Incorporated* v. *Kay Manufacturing Corporation*, 301 F. 2d 140, a 1962 decision.

When there is doubt as to the question of invention, the presumption which arises from the issuance of a patent

may avail itself to the court that the court resolve this doubt in favor of validity. *Electric Vacuum Cleaner Co., Inc.* v. *P. A. Geier Company,* 118 F. 2d 221, a 1941 decision.

29 There has loomed before me in this cause sufficiently such a doubt as to justify my calling into play this well-established axiom of the patent law.

Defendant urges that others manufactured spark perforated tape before the Gill patent was issued. The evidence does not to the satisfaction of the court establish that the particular type of spark perforated tape which eventually in 1956 became the subject matter of the patent issued Gill, et al., was ever manufactured or used by anyone.

It may be that spark perforated tape was in the process of experimentation and even use by others, and defendants, prior to one year before the issuance of the patent. But the patent in issue relates to not just any spark perforated tape; it relates to a specific tape, as I have heretofore discussed, and there is no proof whatsoever as to the anticipation of the claims as I have interpreted them by anyone prior to the application for the patent.

Defendants insist that there was prior public use by plaintiff which was more than mere experimental use.

30 Not only for the reasons stated above, but for a further and more commanding reason this position must fall.

It is clear that to bar the application on his own public use, the patentee must have completed and thereafter put into public use the invention, the same identical invention, more than a year before the patent filing date.

The courts appear in substantial conformity that there is a great deal of difference between the requirements of a reduction to practice and the requirements attending experimentation that continues in an attempt to further per-

fect the device beyond the requirements of a reduction to practice.

This is particularly true whereas, in the instant case, and even though there was no patent issued upon the machinery for making the tape, the process by which it would be made was an integral part of the procedure for completion of the invention. *General Motors Corporation* v. *Bendix Aviation Corporation,* 123 F. Supp. 506, 520, 1954. I believe that is Judge Swygert's decision. *Randolph* v. *Allis Chalmers Mfg. Co.,* 264 F. 2d 533, 535.

It seems to me that from all of the circumstances it must appear from a delay in application that there was a tendency toward abandoning the intent to patent while continuing free production and use, to negate compelling evidence that the use to which the invention was put was experimental. *Hobbs* v. *Wisconsin Power and Light Company,* 250 F. 2d 100, Judge Swygert after he arrived upon the Court of Appeals. From all of the evidence I find that there was no prior use by the plaintiff which would bar the patent, and I find, as I have indicated above, that the patent is valid and should stand, but stand within the severely narrowed limits of the literal language of its claims.

As hereinabove stated, I find the inclusion of Southwick as co-inventor was accidental and without the slightest purpose to defraud or to contrive and, since I am prepared to, and do hereby find the patent valid, I am also prepared to enter my order directing that the patent on proper notice and hearing be corrected to delete the Southwick name.

One matter further poses itself before me. Plaintiff has asked for attorneys fees. Having found that defendants, and both of them, have in no way infringed, what plaintiff actually has in its Gill patent, this request would be denied summarily.

In order, however, that I be understood further on this issue, to the end that I answer before I am asked should the question be raised by either of the other parties, let me say that the Seventh Circuit consistently has held that defendants' claims for attorneys fees or other parties' claims for fees must be denied except where it is absolutely plain that the opposing side did not bring the suit or bring the charge in good faith.

In the absence of a specific finding by the District Court, well supported by the record, that there are "exceptional circumstances" justifying the award, then it should not be granted. *Apex Electrical Mfg. Co.* v. *Altorfer*
33 *Brothers Company,* 238 F. 2d 867, 874, Seventh Circuit, 1956.

The Seventh Circuit has regularly reversed such awards by the courts below and I regularly never allow those awards.

(*Binks Manufacturing Company* v. *Ransbury Electro-Coating Corporation,* 281 F. 2d 252, 260; *Continental Art Company* v. *Bertolozzi,* 232 F. 2d 131, 134, Seventh Circuit, 1956.)

In accordance with the foregoing, it is my request that within ten days from the date hereof all parties submit to this Court their proposed findings of fact and conclusions of law to be entered in this cause, at which time the matter will be set down for post-judgment—

Mr. Pendleton: Did you say all parties, your Honor?

The Court: Yes. I say "all parties" because I found no infringement but I found the patent valid.

Mr. Pendleton: Yes.

Mr. Smith: Your Honor, I don't think your decision covered the misuse problem, at least I didn't understand it to.

34 The Court: You are referring to the misuse by the plaintiff?

Mr. Smith: Yes.

The Court: I think I directed myself to the question.

Mr. Pendleton: We so understood, your Honor.

The Court: In three sentences.

* * * * *

1 IN THE UNITED STATES DISTRICT COURT.
* * (Caption—59-C-896) * *

TRANSCRIPT OF PROCEEDINGS

had in the above-entitled cause, before The Honorable James B. Parsons, one of the Judges of said Court, in his courtroom at the United States Courthouse, Chicago, Illinois, on Thursday, January 31, 1963, at 2:00 o'clock P. M.

* * * * *

3 The Court: This cause comes on today for rulings on defendants' motion for summary judgment and plaintiff's motions for summary judgment and partial summary judgment.

Defendants' motion is based on two alternative grounds: (1) An alleged violation of the decree in the case of United States *vs.* United States Gypsum Company, et al., which defendants assert to be a per se misuse of the Gill Patent involved in the litigation now before this Court; and (2) The allegation that plaintiff has misused the Patent by selling unpatented commodities with an implied license to complete the patented combination.

As Judge Schnackenberg said in American Security Company *vs.* Hamilton Glass Company, 254 F. 2d 889, at 892:

> "It is fundamental that a summary judgment should be granted only if there are no disputed issues of material fact and the moving party is entitled to judgment as a matter of law. * * * From the pleadings of the parties, as well as their briefs in this Court, it appears that important questions of substantive law must even-
4 tually be decided. However, no court should attempt such a decision until all pertinent facts are ascertained. If the record shows . . . that genuine issues of fact exist and that the evidence on those issues is conflicting, of uncertain weight, in part incompetent, and

> itself susceptible of various interpretations, only by a trial can the court ascertain the pertinent facts and move on to decide such questions of substantive law as those facts present. In such a situation entry of summary judgment is not the proper method."

These are the admonitions of the Seventh Circuit—and these are the admonitions which this Court must carefully follow.

With this in mind, we proceed to examine defendants' motion for summary judgment. It is undisputed that the patent in suit is not upon spark-perforated tape. Instead, the patent covers a method of forming a building structure which comprises applying spark-perforated tape to the joint between two wallboards and that structure. It is undisputed that on May 15, 1951, the United States District Court for the District of Columbia entered a decree whereby United States Gypsum Company was ordered to make all of its patents covered by the decree available to the public on reasonable royalties if the patent application was filed within five years after May 15, 1951. The patent involved in the present suit was filed within the five year period. The Decree provided in part that the defendant United States Gypsum Company grant to each applicant a non-exclusive license to make, use and vend under any, some or all patents as defined by the Decree, at a reasonable, non-discriminatory royalty or royalties. The Decree further provided in part that the defendant United States Gypsum Company be enjoined from including any restriction or condition whatsoever in any license or sublicense granted by it except that a reasonable, non-discriminatory royalty could be charged, which royalty could not, however, be imposed upon or measured by patent-free products, processes or uses.

The Decree defines "patents" as "United States Letters Patent and applications for United States Letters Patent

relating to gypsum board, its processes, methods of
6 manufacture or use, now owned or controlled by de-
fendant United States Gypsum Company and issued to, applied for or acquired by defendant United States Gypsum Company, within a period of five (5) years from the date of this "decree", etc. "Gypsum board" is defined as meaning "plaster board, lath, wallboard, special surface board, sheathing, liner board (including any such product which is perforated or metalized) made from gypsum."

It also appears undisputed that specific licenses have been offered under the patent in suit and that in every case these licenses have included a royalty based upon the unpatented wallboard tape used in making the patented combination or practicing the patented method.

Based upon these undisputed facts defendants allege that plaintiff has violated the Court Decree and therefore is guilty of misuse. Normally, the issue of misuse involves issues of fact. Furthermore, courts have cautioned against piecemeal adjudication and urged the general advisability of a trial on all the issues of patent validity, infringement,
and misuse. *Paul E. Hawkinson Company* v. *Dennis,*
7 166 F. 2d 61; *Gray Tool Company* v. *Humble Oil and Refining Company,* 186 F. 2d 365; *Westinghouse Electric Corporation* v. *Bulldog Electric Products Company,* 179 F. 2d 139; *Silvray Lighting, Inc.* v. *Versen,* 10 F. R. D. 507. But Rule 56 of the Federal Rules of Civil Procedure requires that summary judgment be rendered forthwith if there is no genuine issue as to any material fact and the movant is entitled to judgment as a matter of law.

But at this juncture a problem arises. What is meant by issue of fact? There appear to be very few cases which establish any kind of standard which can be applied to all situations. Although I have been unable to find any clear-cut issue of fact, under this motion which must be submitted to a trier of fact, I nevertheless have discovered numerous

issues which call for factual determinations. Thus, what is meant by the word "patents" as used in the Gypsum Decree? What is the meaning and scope to be placed upon the definition of the word as set out in the Decree? What was the intention of the Court? What is meant by the phrase "patent-free"? Each of these are factual questions.

And perhaps each of these matters should be submitted
8 to a trier of fact. Indeed, it appears to have been held that the construction and interpretaton of a court decree is a factual issue which defeats a motion for summary judgment. *Charles Fischer Spring Company* v. *Motion Pictures Screen and Accessories Company,* 36 F. Supp. 227. In light of the statement on page 7 of "Plaintiff's Memorandum of Issues" filed on November 14, 1961, it would perhaps be fair to conclude that plaintiff agrees with this proposition.

The meanings of words used in contracts frequently involve factual issues of intent which must be decided by the trier of fact. On the other hand, the meanings and interpretations of statutes are never placed within a jury's hands. I think it is fair to conclude that court decrees are analogous to statutes, in that they are the law, and must be construed by the court alone, though most certainly the application of the law, as interpreted by the court, to certain facts lies within the province of a jury or trier of fact. To hold otherwise would permit the jury to decide what the law is, and, perhaps in some instances, formulate the law.

9 Having jumped this minor hurdle, we can proceed to construe the Decree, though the same factual issues raised before must now be determined by the Court. Did the District Court for the District of Columbia intend that the Gill patent be included in the Decree? The word "patents" is defined to include those "relating to" wallboard made from gypsum. The Gill Patent concerns wall-

board whether it be made from gypsum or any other product. Since the Decree specifically limits itself to patents relating to wallboard made from gypsum, it would appear that it was not the intention of the Court to include under the Decree those patents which related to wallboard which was not necessarily made from gypsum. Since the Decree is of a penal nature, I think it should be strictly construed, though certainly its purposes should be effectuated and not rendered nugatory.

At an rate, I need not decide this rather complex issue. I shall assume that the Gill Patent does in fact fall within the terms of the Decree. We thus proceed to the next problem. What is meant by the phrase "patent-free"?

In reading Article VI of the Decree we find that United States Gypsum Company was ordered and directed to grant to each applicant therefor non-exclusive licenses to make, use and vend under the patents covered by the Decree, which licenses were to be set at reasonable, non-discriminatory royalties. We also learn from the Decree that reasonable, non-discriminatory royalties could be charged for the use of the patents covered by the Decree which royalties could not, however, be imposed upon or measured by "patent-free" products, processes or uses. We have assumed that the Gill Patent is covered by the Decree.

The question thus arises: Is spark-perforated tape "patent-free"? It is certainly unpatented. But why did the Court use the words "patent-free" and what did it mean when it used this phrase? Once again we are faced with a problem of interpretation. Apparently the term has rarely been used, and extensive research fails to disclose any legal definition that has been attached to the words. We can only look to what little evidence there might be in relation to the use of the phrase by the District Court for the District of Columbia.

I am quite impressed by plaintiff's rather careful
11 observation that the interim licenses approved by the same court which entered the Decree show that "patent-free" does not mean "unpatented." The phrase apparently was used simply to strike at royalty provisions based on the sale of a product which was neither patented nor made by any patented machine or process nor to be used in connection with a patent. The interim licenses provide that the licensees shall pay license fees or royalties at the rate of a fixed per cent of licensees' selling price "of all gypsum board manufactured under any of the processes or embodying any of the inventions covered by said patents and sold by it during the terms" of the licenses. As plaintiff realizes, a gypsum board "embodying" any of the inventions of the licensed patents would be a patented product. A gypsum board which was merely manufactured under any of the licensed processes could be an unpatented product. The Court specifically approved this use of an unpatented product to measure royalties payable to United States Gypsum. To conclude that such gypsum board was "patent-free" would necessitate holding the court-approved interim license agreement itself
12 in violation of the Decree. Presumably the Court was aware of what it sanctioned by approving such licenses. (An interesting problem of construction would arise if the royalties were based upon products not patent-free but relating to patents totally unrelated to the Gill Patent. But we are beset with too many problems to conjure up others to confuse the matter at this time.)

Apparently, the spark-perforated tape involved in this litigation is not manufactured under a patented process. And, as defendants observe, the tape is "used up" in a patented process but is not the result of a patented process. Accordingly, to conclude that spark-perforated tape is not "patent-free" would necessitate an extension of the mean-

ing of the phrase beyond what is indicated in the license agreements. But I think such would be justifiable, for even if spark-perforated tape is not manufactured by a patented process, and is not the end result thereof, it is used solely (as conceded by defendants for purposes of this motion) as a component of a patented process, constituting a material part of the invention. I find no basis for finding that a non-staple material component of a patented process
13 is any more "patent-free" than the resulting product of a patented process. I therefore conclude, for purposes of this motion, that spark-perforated tape is not "patent-free" within the meaning of this phrase as used by the District Court for the District of Columbia. Accordingly, we need not determine whether or not a violation of the Decree constitutes misuse under the facts of this case as a matter of law.

There is a second ground upon which defendants predicate their motion. Defendants contend that plaintiff is guilty of misuse because plaintiff is seeking to employ a patent it owns to secure a monopoly of an unpatented material used in applying the invention, citing *Mercoid Corporation* v. *Mid-Continent Investment Company,* 320 U. S. 661.

Plaintiff contends, on the other hand, that the decision in the Mercoid case has been changed by the 1952 Patent Act, as per 35 U. S. C. A.

Defendants have conceded for the purpose of this motion that the spark-perforated tape is not a staple article and is not a commodity of commerce suitable for substantial noninfringing use.

Thus, I am faced with the narrow issue: Assuming
14 the Supreme Court in the Mercoid case foreclosed a patent owner's right to institute a contributory infringement suit against a manufacturer of a non-staple article capable of no use other than in the patented com-

bination, did the enactment of Section 271 of the 1952 Patent Act restore that right?

Dr. Salsbury's Laboratories v. *I. D. Russell Company Laboratories,* 212 F. 2d 414, does not directly attend this issue. Nor does *United States* v. *Loew's, Inc.,* a recent United States Supreme Court decision rendered on November 5, 1962.

Defendant contends that certain statements in 98 Cong. Rec. 9323, 82d Cong., 2d Sess., July 4, 1952, indicate that the new Act merely codified the then existing law, including the Mercoid decision. But an examination of the entire record, including Senate Report No. 1979 and U. S. Code Congressional and Administrative News, 82d Cong., 2d Sess., 1952, pages 2397, 2402, and 2421, indicates that change in the existing law was indeed contemplated. We also have the benefit of those learned men who wrote various treatises on the problem and also concluded that change was intended. Report of the Attorney General's National Committee to Study the Antitrust Laws (1955), at pages 252-3; 54 Mich. L. Rev. 199 (1955), at page 199. Further, we have the benefit of the opinions of learned judges who have held that change was intended. *Sola Electric Company* v. *General Electric Company,* 146 F. Supp. 625; *Rohm and Haas Company* v. *Roberts Chemicals,* 245 F. 2d 693; *Southern States Equipment Corporation* v. *U. S. C. O. Power Equipment Corporation,* 209 F. 2d 111. Indeed, even those cases which defendants present in support of their case really, I think, support plaintiff's position. *Switzer Brothers, Inc.* v. *Locklin,* 297 F. 2d 39; *Freedman* v. *Friedman,* 242 F. 2d 364.

Although the statute involved in this proceeding, 35 USCA 271, could perhaps read with more clarity, I think the intent of Congress is reasonably clear. As a result of Mercoid, a patent owner could perhaps never recover for

contributory infringement if he derived revenue from the very same infringing acts as the contributory infringer engaged in,—even if such acts related to non-staple commodities suitable for no substantial noninfringing use.

16 Defendants contend that the most that can be said for 271(d) is that it makes clear that a person who sues for contributory infringement is not, by reason of that action, guilty of patent misuse. But I think 271(d) goes further. I think it says that a patent owner is not guilty of misuse if he derives revenue from selling non-staple components which have no substantial non-infringing use and which constitute material parts of a patented process, even though such a sale by another would constitute contributory infringement. In other words, it now appears, subsequent to the 1952 Act, that the owner of a patent may employ it to secure a limited monopoly of an unpatented material used in applying the invention, provided the unpatented material: (1) is a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process; (2) constitutes a material part of the invention; and (3) is not a staple article or commodity of commerce suitable for substantial noninfringing use.

17 In accordance with the foregoing, I hereby deny defendants' motion for summary judgment, but without prejudice. Counsel for both sides have done a magnificent job in arguing and briefing this motion, and I will welcome at any time during the course of this litigation the further benefit of counsel's thinking, especially with respect to the intention of the District Court for the District of Columbia in rendering its decree. I do not wish to foreclose further thought in any way with relation to the very intricate legal problems that are here involved.

As a result of this ruling, many issues arise which are clearly factual and proper for submission to a jury: such

as, does spark-perforated tape constitute a material part of the invention; is it a staple article; is it suitable for substantial noninfringing use? Depending upon the answers to these questions, defendants may be able to establish misuse.

We thus come to plaintiff's motions for summary judgment and partial summary judgment. After having read all of the briefs, depositions, exhibits, and answers to interrogatories with relation to this motion, I tend to agree with plaintiff that, having pierced the allegations of the pleadings, there is little evidence to sustain the antitrust allegations. On the other hand, there is no evidence to disprove the allegations, thus, while there may be no genuine issue as to a material fact, at this stage of the proceedings, there is also insufficient evidence on behalf of plaintiff which would enable me to render judgment for plaintiff as a matter of law on this phase of the case.

18

Defendants allege that the actions of plaintiff in extending its patent monopoly to include unpatented staple articles constitutes a misuse and an antitrust violation. Plaintiff simply denies such a conclusion. But there is neither supporting nor opposing evidence with relation to these allegations. All the pertinent facts certainly have not been ascertained.

It must be remembered that defendant is not required to prove his claim at this time. Should defendant have nothing more at the time of trial, it would seem certain that a motion for a directed verdict would lie, for defendant would have failed to meet its burden of proof. But under the liberal Federal Rules of Civil Procedure, a claim upon which relief can be granted has been stated by defendants. There is no rule which requires that the elements of the cause of action be set out, though such may be required upon the granting of a motion for a more definite statement.

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At any rate, there are insufficient facts (even though what facts there are be undisputed) before me at this time to rule either way as a matter of law. All that I have before me are charges and countercharges. If plaintiff would present me with facts which would sustain its defense, and if defendant would not dispute those facts, then I could rule as a matter of law. On the other hand, plaintiff may very well want to wait until the time of trial and force defendants to meet their burden of proof.

Accordingly, I am hereby denying plaintiff's motions for summary judgment and partial summary judgment, this also without prejudice.

As old as this case is there appears to a great fog surrounding various aspects of this litigation. Further discovery may be of help. On the other hand, this three year old case, important as it is, should come to a close in the foreseeable future. I am therefore prepared to rule on the various discovery motions now pending, and I will so rule unless counsel wish to be heard further with regard thereto.

* * * * *

OPINION DISMISSING COUNTERCLAIM.

3895 The Court: Before moving into the trial of this cause, I have an opinion and order, and it has been an exhaustive bit of work, and I might say at the outset that the deep questions, very deep questions which I still have pending in my mind and which await the conclusion of the case, about whether or not we are dealing with an invention, if that is the proper word, or whether or not there was prior art which justified the exercise of the invention, is totally reserved in what I have here to say and it will not in any way reflect on that, nor have I allowed my feelings in developing this issue to in any way begin to cause me to arrive at a decision ahead of time. I still worry a great deal

about balloon cloth, and I worry a great deal about the question of whether there is established uses, other uses. I am leaving myself open to proof.

This comes at this time for a ruling on plaintiff's motion to dismiss defendants' counterclaim pursuant to Rule
3896 41(c) of the Federal Rules of Civil Procedure on the ground that the defendants have totally failed to prove any violation of the antitrust laws.

Now, the counterclaims charge that plaintiff has used its patent, No. 2,749,267, to obtain a monopoly or potential monopoly in perforated tape, and that the present complaint is brought to enlarge the monopoly or potential monopoly.

In response to the motion, the defendants argue that it is unnecessary to prove the elements of an antitrust violation, because there is sufficient evidence establishing a misuse of the patent and "patent misuse is, in every case, a per se antitrust violation."

3897 Defendants seek support for the latter proposition in *United States* v. *Loew's, Inc.*, 371 U. S. 38, where the Supreme Court said:

> "The existence of a valid patent on a tying product without more establishes a distinctiveness sufficient to conclude that any tying arrangement involving the patented product would have anticompetitive consequences."

It is not clear what is meant by a "tying product." It could include a material component of an invention not a staple article of commerce suitable for no substantial noninfringing use. In any event, interpolating upon the language of the Supreme Court, it is doubtful that the existence of a valid patent on the tying process, without more, establishes a distinctiveness sufficient to conclude that any tying arrangement, and I would underline the word "any,"

between the patented process and a material component of the process, not a staple article of commerce suitable for no substantial non-infringing use, constitutes a per se antitrust violation. The *Loew's* case must be read in its context.

3898 Defendants also cite the second *Mercoid* case, *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Company,* 320 U. S. 680, where Mr. Justice Douglas stated at page 684, and I quote:

> "The legality of any attempt to bring unpatented goods within the protection of the patent is measured by the antitrust laws and not by the patent law."

Further he says:

> "The effort here made to control competition in this unpatented device plainly violates the antitrust laws, even apart from the price-fixing provisions of the license agreements."

I have it here, "emphasis added" to the words "here made."

If the Supreme Court had meant by these statements that a patent misuse is in every case, and not only under facts such as existed in *Mercoid,* a per se antitrust violation, it is doubtful that the Court would have chosen such an obscure way of announcing a new rule.

In no Supreme Court opinion prior to *Mercoid* had there been any suggestion that an antitrust violation auto-
3899 matically results from any patent misuse regardless of the elements of proof required by the antitrust laws.

3900 Prior to *Mercoid* it was well recognized that a misuse need not amount to an antitrust violation. In *Transparent-Wrap Machine Corp.* v. *Stokes and Smith Company,* 329 U. S. 637, at 641, Mr. Justice Douglas stated:

> "The requirement that a licensee under a patent use an unpatented material or device with the patent might

violate the antitrust laws but for the attempted protection of the patent. The condemnation of the practice, however, does not depend on such a showing. Though control of the unpatented article or device falls short of a prohibitive restraint of trade or monopoly, it will not be sanctioned."

The Court in *Stokes* obviously recognized that a misuse could exist without a co-extensive antitrust violation.

Nevertheless, it may well be true that the Supreme Court in *Mercoid* intended to make every misuse a per se antitrust violation. The observations of the Report of the Attorney General's National Committee to Study the Antitrust Laws, March 31st, 1955, at page 254, is interesting in this
3901 regard, and I quote:

"We reject the view that any violation of patent law necessarily violates the antitrust laws. From some abuses of patent policy may flow consequences not drastic enough to meet antitrust prerequisites of effect on competition. In addition, many patent abuses are more effectively curbed by simply denying equitable relief as a matter of patent policy. Holding every patent law transgression to be at the same time an antitrust violation would, moreover, put the patent owner on a different footing than owners of other property subject to antitrust. For antitrust has its own measure of permissive and wrongful conduct. To say that action beyond the borders of the patent grant is a per se antitrust violation is to ignore the Supreme Court's distinction between the variant statutory sandards of the Sherman, Federal Trade Commission, and Clay-
3902 ton Acts, as well as to repudiate the body of interpretations distinguishing between offenses unreasonable per se and those not."

Even if *Mercoid* does stand for the proposition that every misuse constitutes per se an antitrust violation, the bases of that ruling were substantially modified by the 1952 amendments to Section 271 of Title 35, U. S. C. Prior to the amendments, and under *Mercoid,* every attempt to secure a monopoly over unpatented articles through use of a patented process could easily be recognized by anyone. But after the 1952 amendments it was unlawful to attempt to secure a monopoly over unpatented articles only if such articles did not constitute a material part of the invention or if such articles were staple articles or if such articles were suitable for substantial noninfringing uses.

3903 Consequently, after 1952, it became lawful to extend certain monopoly rights over certain unpatented articles, provided such articles constituted a material part of the invention, and were not staple articles or commodities of commerce suitable for substantial non-infringing uses.

Obviously, under the 1952 amendments, many close factual issues arose and will arise which will require a trier of fact to exercise the rule of reason. Many situations will arise where reasonable men will differ as to whether or not under Section 271 a patent has been misused by attempting to extend it to unpatented articles. If reasonable men may differ as to whether there was a misuse, as in the case at bar, where the trier of fact must determine if spark-perforated tape has a substantial non-infringing use, how then can one logically conclude, after it is finally determined that there was a misuse, that the activities constituting a misuse constituted a per se antitrust violation?

In answer to this question, one may point to price-fixing, for example. It may be argued that whether or not there was price-fixing is a factual issue which often poses

3904 difficulty, but that once it is found to exist, it is unreasonable per se, just as in the case of misuse. The difference between the usual per se violations and misuse, however, is that the former includes conduct which obviously is known to be unlawful, whereas the latter includes conduct, the legality of which often cannot be determined until the judicial processes are utilized.

The reason for this uncertainty is due to the fact that what may be unlawful for one person is not necessarily unlawful for a patentee. Patentees, to a certain extent, are exempted from the operation of the antitrust laws. Thus, what is obviously a violation for one person may present an exceedingly close question for a patentee. If a close question exists, is it logical to find a per se antitrust violation once a misuse is determined? Isn't it enough if the patent is unenforcible, with the patentee entitled, in some cases, to attorney's fees plus costs? Why must the patentee pay treble damages, in the nature of a penalty, for attempting to enforce rights which he in good faith believes are his rights?

In the case of price-fixing, the law presumes the existence of an intent to monopolize, as well as the requisite power to do so. But these elements do not necessarily exist
3905 where any patenee in any manner misuses his patent. The misuse may have occurred in good faith and without any intention that the antitrust laws be violated. It would be unduly severe on a patentee to subject him as a matter of law to the sanctions of the antitrust laws every time he accidentally steps over the fuzzy boundary lines of his patent rights. Under such circumstances, a patentee always would be extremely reluctant to enforce those rights which bordered on the doubtful. Anyone else, however, wouldn't have to worry about taking that accidental step, for so long as he acted in good faith, his activities would never enter into the per se area, and the complainant would

rarely be able to prove the elements of an antitrust violation. To allow the slightest misuse of a patent, even though unintentional, even though in good faith, even though arguably not a misuse, to constitute an automatic antitrust violation, I think, would be grossly unfair and unjust.

In view of the foregoing, and the basic policies and philosophy of patent law, I cannot hold as a matter of law that every misuse constitutes a per se antitrust violation.

Certain types of misuse may, but certainly not the
3906 one alleged in the case at bar.

So far as proof of an antitrust violation in the case at bar is concerned, defendants point to two alleged elements of misuse:

One, a violation of a certain court decree; and

Two, the commencement of the present litigation. While these activities may ultimately be found to constitute misuse, they do not in and of themselves prove an antitrust violation. And there is no evidentiary proof establishing the unreasonableness of these activities or any bad faith on plaintiff's part.

Plaintiff's attempt to enjoin the manufacture of spark-perforated tape is not an obviously unlawful or unreasonable attempt to eliminate competition as it would be if plaintiff had no patent on which to base its request for an injunction. Under the facts of the case at bar, as in any case where the patent law allows one to encroach upon that range of activity which would otherwise be unlawful, the range of obviousness is narrowed to the point where an antitrust violation is no longer obvious.

3907 A patentee should not be denied free access to the courts and there is no evidence here that plaintiff is purposely using this court as a vehicle for maintaining and carrying out an unlawful monopoly.

The evidence in fact shows that this cause was brought in what the Court must consider to have been in good faith.

An infringement action is not of itself unlawful. See *Jacquard Knitting Machine Company* v. *Ordnance Gauge Company,* 108 Fed. Supp. 59, affirmed 213 Fed. 2d 503; *D. B. Cole* v. *Hughes Tool Company,* 215 Fed. 2d 924; *Lynch* v. *Magnavox Co.,* 94 Fed. 2d 883; *Ronson Patents Corporation* v. *Sparklets Devices,* 112 Fed. Supp. 676; *Trico Products Corporation,* v. *Delman,* 199 Fed. Supp. 231.

A good faith patent infringement suit, though the patent is held invalid, does not violate the antitrust laws. See Report on Antitrust Laws, above, pages 247-253.

An antitrust violation exists only where the real purpose of the infringement action and the related activities of
the patentee are to further a monopoly beyond the
3908 scope of the patent.

To hold otherwise would result in an antitrust violation every time an infringement suit were brought and the patent was found invalid. Such a result might further the purposes of the antitrust laws but it would at the same time severely hamper and discourage the purposes of our patent laws.

If there is nothing more than the bringing of the infringement action, antitrust damages could not and should not be recovered. *Kobe, Inc.* v. *Dempsey Pump Company,* 198 Fed. 2d 416.

3909 In substance this is all that has been proven by defendants here under their counterclaim. Even if the decree were violated as defendants suggest, and even if spark-perforated tape has substantial noninfringing uses, this may be proof of misuse but this in no way proves any of the elements of monopolization or attempt to monopolize, as is required by Kobe.

There is no proof of an unlawful intent to monopolize

outside its patent rights nor is there proof of power to so monopolize.

There is no evidence of plaintiff's position in the relevant market, whether the market includes all types of tape or only spark-perforated tape. There is no evidence of an unlawful combination or conspiracy as was found in *Dairy Foods, Incorporated* v. *Dairy Maid Products Coop,* 297 Fed. 2d 805, nor is there evidence of a dangerous probability of accomplishing a monopoly except that which is permitted by the patent.

There is no evidence of a specific intent to monopolize.

A thorough analysis of all the cases reffects the
3910 exceedingly difficult duty of the Court to protect on the one hand the constitutionally intended right of the patentee to exercise to his benefit those rights commensurate with the encouraged privilege of genius and invention, while on the other hand to protect the statutorily guarded protection of commerce from monopoly.

This has always been a severe responsibility of the court and it is one that lends no comfort to any decision that is made. The certainty with which a court may adjust these two threatening conflicts in public policy is to demand that in establishing out of the use of a patent a monopoly in violation of our antitrust laws the proponent thereof show by a preponderance of evidence not merely a per se violation growing out of a determination as a matter of law of a set of facts, and not even merely a preponderance of evidence of an actual stepping over the line by the patentee but, rather, that by such preponderance of evidence the proponent show a substantial, a meaningful, an intentional, a purposeful, deliberate and almost semi-gargantuan overstepping that impels the Court by its inherent threat
3911 to the purposes of peaceful and progressive commerce and good public policy.

Without addressing myself to the other issues in this case, I fail to find established by such preponderance of evidence, if more than a per se overstepping by virtue of a legal conclusion on the facts, not such an overstepping as would constitute, as I have heretofore said, a substantial, meaningful, intentional, purposeful, deliberate and almost semi-gargantuan overstepping that would impel the Court by its inherent threat to the purposes of peaceful and progressive commerce and good public policy.

3912 It may ultimately be found that there was no misuse in the instant case. This would obviate the need for dealing with the present problem. However, until and unless such a finding is made, plaintiff's motion for involuntary dismissal of defendants' counterclaim pursuant to Rule 41(b) and (c), must be allowed on the grounds that a misuse as was here alleged does not constitute a per se antitrust violation under the facts of this case and that no antitrust violation of any other kind has been substantiated by a preponderance of evidence.

Mr. Merriam: May I be heard a minute? I don't want to reargue it but I would like to clarify a couple of things.

One, we have a pending request for amendment of our pleading of the counterclaim. Is your Honor ruling as to whether that is allowed or not?

The Court: The motion is allowed and it is considered in the opinion.

Mr. Merriam: All right. Secondly, we have in the prior arguments, but I did not say on the last meeting here, brought up again the question of the constitutionality of the 1952 Act if it is interpreted as your Honor inter-
3913 prets it, and I want to make clear of record that that point was raised.

The Court: Yes, let the record show that it was raised and that my opinion assumed its constitutionality.

Mr. Merriam: Third, your Honor stated that there were two grounds of arguing on our part that there was a violation of the antitrust laws. I wish to point out that there were in addition two other grounds which were not specifically mentioned.

One was that the sale of the spark-perforated tape by the plaintiff with a license to make the patented combination and use the patented method was a per se violation of the antitrust laws and, second, that the licensing of Marvan and Evon to do the same thing was, and I do not ever claim that the bringing of the suit itself without these other things would have been a violation of the antitrust laws.

The Court: Well, I included those in my second point, though I did not enumerate them as such, but they were included in the second point.

• • • • •

3916 The Court: Very well, let the record indicate that I am not at this time entering the order but I am indicating what the Court's order will be, and the order will be entered unless I find other reasons to—

Mr. Merriam: Well, let me—

The Court: It will be entered at the conclusion of the case.

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DECREE OF MAY 15, 1951.

IN THE DISTRICT COURT OF THE UNITED STATES

For the District of Columbia.

United States of America, *Plaintiff*, *vs.* United States Gypsum Company; National Gypsum Company; Certainteed Products Corporation; The Celotex Corporation; Ebsary Gypsum Company, Inc.; Newark Plaster Company; Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company; Sewell L. Avery; Oliver M. Knode; Melvin H. Baker; Frederick G. Ebsary; and Frederick Tomkins, *Defendants*.	Civil Action. No. 8017.

PRELIMINARY STATEMENT.

(Filed May 15, 1951, Sharry M. (Illegible), Clerk.)

This cause came on for trial before this Court on November 15, 1943. At the conclusion of the plaintiff's presentation of the case, defendants moved, pursuant to Rule 41 (b) of the Federal Rules of Civil Procedure, for judgment dismissing the complaint on its merits. The motion of defendants was granted August 6, 1946. The judgment so rendered by this Court was reversed by the Supreme Court of the United States, and the case was remanded to this Court for further proceedings in conformity with the opinion of the Supreme Court (333 U. S. 364).

Following the remand, the plaintiff, pursuant to Rule 56 of the Federal Rules of Civil Procedure, moved for summary judgment in its favor upon the pleadings and all of the proceedings which theretofore had been had in the case, or, in the alternative, for such further proceedings as this Court might direct, and defendants, by direction of the Court, filed proffers of proof.

Argument by counsel for the respective parties upon the motion of the plaintiff was heard by the Court, and after due consideration of such argument and of defendants' proffers of proof, Carrett, *J.* and Jackson, *J.*, constituting a majority of the Court, announced a ruling to the effect that plaintiff's motion for summary judgment would be granted, and Stephens, *J.*, who presided during the trial, announced his dissent from such ruling.

Thereafter counsel for plaintiff and counsel for certain of the defendants submitted forms of final decrees for the consideration of the Court and also suggested findings of fact, the latter to be considered in the event the Court should deem it necessary to make any findings of fact additional to those originally found by it and to those stated in the opinion of the Supreme Court.

In due course, the Court heard arguments respecting the proposed decrees and the suggested findings of fact, and full consideration was given thereto and to all prior proceedings—all being considered in the light of the decision of the Supreme Court which, as understood by the majority of this Court, held that the defendants acted in concert to restrain trade and commerce in the gypsum board industry and monopolized said trade and commerce among the several states in that section hereinafter referred to as the eastern territory of the United States, which section embraces all the states of the United States westward from the eastern coast thereof to the Rocky

Mountains and including New Mexico, Colorado, Wyoming, and the eastern half of Montana.

Thereafter this Court on November 7, 1949, entered its decree sustaining plaintiff's motion for summary judgment and granting relief which it deemed appropriate to its adjudication. Plaintiff thereupon appealed to the Supreme Court seeking to have the scope of the relief enlarged, and certain defendants appealed to the Supreme Court for a reversal of the judgment, which latter appeal was dismissed by the Supreme Court on May 29, 1950. On November 27, 1950, the Supreme Court rendered an opinion on the plaintiff's appeal, affirming this Court's adjudication of Sherman Act violation, holding there was concerted action through the fixed-price licenses and accepting as true the underlying facts in the defendants' proof by proffer. Nevertheless, the Supreme Court reversed the decree heretofore entered herein and remanded the cause to this Court with instructions to modify its decree and for further proceedings in conformity with its opinion.

Upon remand, this Court, after ordering counsel for the plaintiff and for the defense to submit forms of decree in conformity with the Supreme Court opinion and after considering such forms has modified its decree of November 7, 1949, in accordance with the Supreme Court's opinion of November 27, 1950.

Decree.

It is therefore ordered, adjudged, and decreed:

Article I.

This Court has jurisdiction of the subject matter hereof and of the parties hereto. The complaint states a cause of action against defendants under the Act of Congress of July 2, 1890, entitled "An Act to Protect Trade and

Commerce Against Unlawful Restraints and Monopolies", commonly known as the Sherman Antitrust Act, and acts amendatory thereof and supplemental thereto.

Article II.

As used in this decree:

1. "Defendant Companies" shall mean all of the corporate defendants and Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company.

2. "Gypsum board" shall mean plaster board, lath, wall board, special surface board, sheathing, liner board (including any such product which is perforated or metallized) made from gypsum.

3. "Gypsum products" shall mean gypsum board as defined in the preceding paragraph, and plaster, block, tile and Keene's cement made from gypsum.

4. "Patents" shall mean United States Letters Patent and applications for United States Letters Patent relating to gypsum board, its processes, methods of manufacture or use, now owned or controlled by defendant United States Gypsum Company and issued to, applied for or acquired by defendant United States Gypsum Company within a period of five (5) years from the date of this decree, including Letters Patent issued upon any of said applications, and continuations in whole or in part, renewals, reissues, and divisions and extensions of any such Letters Patent or applications for Letters Patent.

5. "Patent Licenses" shall mean the patent license agreements which were in effect between defendant United States Gypsum Company and each of the other defendant companies at the time the complaint herein was filed and described in said complaint as follows:

Agreement dated October 15, 1929, between United States Gypsum Company as licensor, and Certainteed Products Corporation, as licensee;

Agreement dated October 17, 1929, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee;

Agreement dated October 18, 1929 between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee;

Agreement dated November 5, 1929 between United States Gypsum Company, as licensor, and Universal Gypsum and Lime Company (National Gypsum Company as Assignee), as licensee;

Agreement dated November 25, 1929, between United States Gypsum Company, as licensor, and American Gypsum Company (The Celotex Corporation as Assignee), as licensee;

Agreement dated April 23, 1930 between United States Gypsum Company as licensor, and Kelley Plasterboard Company (Newark Plaster Company, as Assignee), as licensee;

Agreement dated February 10, 1937 between United States Gypsum Company, as licensor, and Texas Cement Plaster Company, as licensee;

Agreement dated October 5, 1934, between United States Gypsum Company, as licensor, and National Gypsum Company as licensee (Metallized board);

Agreement dated October 12, 1934, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Company, as Assignee) as licensee (Metallized board);

Agreement dated November 2, 1934, between United States Gypsum Company, as licensor, and Certain-

teed Products Corporation, as licensee (Metallized board);

Agreement dated December 4, 1934, between United States Gypsum Company, as licensor, and American Gypsum Company (The Celotex Corporation as Assignee) as licensee (Metallized board);

Agreement dated August 4, 1935, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Metallized board);

Agreement dated June 8, 1936, between United States Gypsum Company, as licensor, and Certainteed Products Corporation, as licensee (Perforated Lath);

Agreement dated September 16, 1938, between United States Gypsum Company, as licensor, and Certainteed Products Corporation, as licensee (Perforated lath);

Agreement dated February 2, 1937, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Perforated lath);

Agreement dated September 16, 1938, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Perforated lath);

Agreement dated June 23, 1937 between United States Gypsum Company, as licensor and Kelley Plasterboard Company (Newark Plaster Company as Assignee) as licensee (Perforated lath);

Agreement dated January 3, 1939, between United States Gypsum Company, as licensor, and Newark Plaster Company, as licensee (Perforated lath);

And any supplement or amendment to any of said patent license agreements.

Article III.

The defendants companies have acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain, and control the prices of gypsum board and have monopolized trade and commerce in the gypsum board industry in violation of sections one and two of the Sherman Anti-trust Act.

Article IV.

Each of the licensee agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void.

Article V.

The defendant companies, and their respective officers, directors, agents, employees, representatives, subsidiaries, and any person acting or claiming to act under, through or for them, or any of them, be and each of them hereby is enjoined from entering into or performing any agreement or understanding among the defendant companies or other manufacturers of gypsum products to fix, maintain or stabilize, by patent license agreements or other acts or course of action, the prices, or the terms or conditions of sale, of gypsum products sold or offered for sale to other persons, in or affecting interstate commerce; and from engaging in, pursuant to such agreement or understanding, and of the following acts or practices:

(1) agreeing upon any basis for the election or classification of purchasers of gypsum products;

(2) refraining from selling gypsum products to any purchaser or any class or purchasers;

(3) agreeing upon any plan of selling or quoting gypsum products at prices calculated or determined pursuant to a delivered price plan which results in identical prices or price quotations at given points of sales or quotation by defendants using such plan;

(4) policing, investigating, checking or inquiring into the prices, quantities, terms or conditions of any offer to sell or sale of gypsum products.

Article VI.

1. Defendant United States Gypsum Company is hereby ordered and directed to grant to each applicant making application therefore, but only in so far as it has the right to do so, a non-exclusive license to make, use and vend under any, some or all patents as hereinbefore defined, at a reasonable, non-discriminatory royalty or royalties therefor. Defendant United States Gypsum Company is hereby enjoined from making any sale or other disposition of any of said patents which deprives it of the power or authority to grant such licenses unless it requires as a condition of such sale, transfer or assignment that the purchaser, transferee or assignee shall observe the requirements of Articles VI and VIII of this decree, and unless the purchaser, transferee, or assignee shall file with this Court, prior to or as a part of the consummation of said transaction, and undertaking to be bound by said articles of this decree.

2. Defendant United States Gypsum Company is hereby enjoined from including any restriction or condition whatsoever in any license or sub license granted by it pursuant to the provisions of this article, except that (a) the license may be indivisible and non-transferable; (b) a reasonable, non-discriminatory royalty may be charged, which royalty

may not be imposed upon or measured by patent-free products, processes or uses; (c) Provision may be made requiring licensee to keep full and accurate records of the gypsum board manufactured and sold by it under any such patent and requiring licensee to make appropriate reports to licensor as to the royalty due, but such reports shall not disclose the selling price of the board or disclose a breakdown of the size or thickness of the board sold. (d) Reasonable provision may be made for periodic inspection of the books and records of the licensee by an independent auditor, or by any persons acceptable to the licensor and licensee, who shall report to the licensor only the amount of royalty due and payable; (e) Reasonable provisions may be made for marking the gypsum board manufactured or sold under the licensed patent. And (f) reasonable provision may be made for cancellation of the license upon failure of the licensee to pay the royalty or to permit the inspection of its books and records or for other material breach of the terms of the license agreement by licensee, or in the event licensee shall be adjudged a bankrupt. The license agreement shall be in writing signed by the parties hereto and shall to the extent that licensor has the right to do so, grant to the licensee the full right to make, use and vend the inventions and improvements described in the claims of such patent licensed, in the manufacture, sale or use of gypsum board, for the full term of the patent and any renewal, reissue, division, or extension thereof, and may contain the provisions hereinabove set forth and such other lawful provisions as may be agreed upon between the parties thereto and which are not in conflict with any of the provisions of this decree.

3. Upon receipt of written request for such a license defendant United States Gypsum Company shall advise the applicant in writing of the royalty which it deems reasonable for the patent or patents to which the request per-

tains. If the parties are unable to agree upon a reasonable royalty within sixty (60) days from the date such request for a license was received by United States Gypsum Company, the applicant therefor shall within ten (10) days thereafter apply to this Court for a determination of a reasonable royalty or be deemed to have abandoned his said request for such license. The applicant shall promptly give written notice of the filing of such application to the United States Gypsum Company and to the Attorney General of the United States, who shall have the right to be heard thereon. The reasonable royalty rate or rates so determined by the Court shall apply to such patent or patents in the license of the applicant from the date of his last written request for such license, and to such patent or patents in all other licenses then or thereafter issued under this decree from the date of such determination. Pending the completion of any such proceeding, applicant shall have the right to make, use and vend under the patent or patents to which his application pertains upon the terms and conditions as set forth in paragraph four of this Article, provided he files his application for the determination of a reasonable royalty as aforesaid.

4. Where an application has been made to this Court for the determination of a reasonable royalty under paragraph three of this Article, the applicant or the United States Gypsum Company may apply to the Court to fix an interim royalty rate pending final determination of what constitutes a reasonable royalty. If the Court fixes such interim royalty rate, United States Gypsum Company shall then issue and the applicant shall accept an interim license agreement effective as of the date of the applicant's last written request for such license hereunder and in the form this day filed herein and approved by the Court, providing for the periodic payment of royalties at such interim rate from the effective date of such interim license. If

applicant fails to accept such interim license or fails to pay the interim royalty in accordance therewith, any such action or omission shall be grounds for the dismissal of the application for the determination of a reasonable royalty and the withdrawal or cancellation of the interim license. Where an interim license has been issued pursuant to this paragraph, reasonable royalty rates for any patent or patents as finally determined by the Court shall apply to such patent or patents in the licenses of the applicants and all other applicants then before the Court and shall be retroactive with respect to each such applicant to the date of his said written request for such license.

Article VII.

Nothing contained in this decree shall be deemed to have any effect upon the operations or activities of said defendants which are authorized or permitted by the Act of Congress of April 10, 1918, commonly called the Webb-Pomerene Act or the Act of Congress of August 17, 1937 commonly called the Miller-Tydings Act, or by any present or future act of Congress or amendment thereto; Provided, however, nothing contained in this Article shall in any manner affect the provisions of Article VI of this decree.

Article VIII.

For the purpose of securing compliance with this decree, and for no other purpose, duly authorized representatives of the Department of Justice upon written request of the Attorney General or any Assistant Attorney General, and on reasonable notice in writing addressed to any defendant company at its principal office, shall be permitted, subject to any legally recognized privilege: (a) access dur-

ing the office hours of said defendant to all books, ledgers, accounts, correspondence, memoranda, and other records and documents in its possession or under its control relating to any of the matters contained in this judgment; (b) subject to the reasonable convenience of said defendants and without restraint or interference from it, to interview officers or employees of said defendant regarding any of the matters contained in this judgment; provided, however, that either said defendant or any such officer or employee may have counsel present at any such interview. No information obtained by the means permitted in this Article shall be divulged by any representative of the Department of Justice to any person other than a duly authorized representative of the Department of Justice, except in the course of legal proceedings in which the United States of America is a party, for the purpose of securing compliance with this decree or as otherwise required by law.

Article IX.

Judgment is entered against the defendant companies for 50% of the costs of $2,824.00 to be taxed in this proceeding, and the costs so to be taxed are hereby prorated against the several defendant companies as follows:

United States Gypsum Company	$776.60
National Gypsum Company	$324.76
Certain-teed Products Corporation	$155.32
The Celotex Corporation	$ 42.36
Ebsary Gypsum Company Inc.	$ 42.36
Newark Plaster Company	$ 56.48
Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company	$ 14.12

Article X.

Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereinafter become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations, or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith.

Let the decree be entered.

/s/ Harold M. Stephens
/s/ Finis J. Garrett
/s/ Joseph R. Jackson

May 15, 1951

Interim License.

(Filed May 15, 1951 Harry M. Hull, Clerk.)

This Agreement, made this ..... day of ..... A.D. ....., by and between United States Gypsum Company, an Illinois corporation, of Chicago, Illinois, hereinafter referred to as Licensor, and ..... a ..... corporation, of ..... hereinafter referred to as Licensee.

Witnesseth, That

Whereas, Licensee desires to obtain a license to make, use and sell gypsum board made according to the processes or embodying the claims of one or more of the hereinafter mentioned patents, owned by Licensor, through the full term thereof;

Now, Therefore in consideration of the sum of One Dollar and other good and valuable considerations, the receipt thereof is hereby acknowledged, and of the mutual covenants and agreements hereinafter contained, the parties hereto have agreed as follows, to-wit:

1. Licensor has agreed to and does hereby give and grant on to Licensee an indivisible and non-exclusive right, license, and privilege to make, use and vend the inventions and improvements claimed in the following letters patent

Patent Number Date Expiration Date

in the manufacture, use or sale of gypsum board, in the United States of America and the territories and possessions thereof, for the full term of the last to expire of said letters patent, including any reissues thereof.

2. Licensee agrees to pay to Licensor for the right and privilege granted under Paragraph I above a license fee or royalty at the rate of ..... per cent (.....%) of Licensee's selling price of all gypsum board manufactured under any of the processes or embodying any of the inventions covered by said patents and sold by it during the term hereof, provided that no license fee or royalty shall be payable on gypsum board exported by Licensee to any foreign country. Nothing herein contained shall prevent Licensee from selling any of said gypsum board in any foreign country.

Licensee's selling price for the purpose of computing the royalty shall mean the net price of Licensee's shipping point after deducting transportation charges and cash discounts allowed by Licensee.

3. The License herein granted shall be personal to the Licensee and shall not be sold, assigned or transferred by it either voluntarily or by operations of law without the written consent of Licensor.

4. Licensee agrees to keep separate, full and accurate books of accounts and records showing the exact quantity of all gypsum board manufactured under any of the processes or embodying any of the inventions covered by said patents and sold by it, together with the Licensee's selling price thereof, and agrees that on or before the 20th day of each calendar month it will deliver to Licensor at its office in Chicago, Illinois, true written returns, verified under oath by an officer or other authorized agent of Licensee, setting forth without any breakdown with respect to thickness and size of gypsum board, the quantity of all such gypsum board manufactured by it, and sold during the preceding calendar month, and the amount of royalty due and payable on account of such gypsum board so manufactured and sold. Licensee also agrees to pay

to Licensor at its said office on or before the 20th day of each calendar month the hereinbefore stipulated royalties or license fees which may then be due under the terms of this agreement on account of all such gypsum board manufactured by it and sold during the preceding calendar month.

5. Licensor shall have the right, at all reasonable times and for such period or periods of time as it may from time to time determine, to verify the correctness of the royalty payments by periodic inspection of the accounts and records of Licensee referred to in the next preceding paragraph, provided, however, that such inspection shall be made by an independent auditor, or by any other person acceptable to both Licensor and Licensee, who shall report to Licensor only the amount of the royalties which were payable during the period covered by the inspection. If Licensee shall object to the independent auditor selected by Licensor, then Licensor shall name, in writing addressed to Licensee, three certified public accountants of good standing, not directly or indirectly employed by it or in any other manner connected with it, and if Licensee shall not within ten days thereafter accept in writing anyone of them, then Licensor shall have the right to designate one of the three to act as an independent auditor. In any event, the expense of making any such audit shall be borne equally by the parties.

6. Licensee agrees that all gypsum board manufactured and sold by it under or embodying the claims of any such patents shall be distinctly marked with the word "patent" and followed by the numbers of any of the aforesaid patents, the claims of which are embodied in said gypsum board, and Licensee further agrees to distinctly mark said gypsum board with the

words "Lisenced under the above patents and also under the process claims of patent," followed by the number of any of the aforesaid patents of which any process claimed therein is utilized in the manufacture of said product.

7. In the event either party shall at any time neglect, fail or refuse to keep or perform any of the conditions or agreements to be kept or performed by it under the provisions thereof, then the other party may at its election serve upon the party in default written notice of intention to terminate this license and specifying the alleged default. If the party in default shall not cure the default so specified within thirty (30) days thereafter, then the other party may cancel and terminate this agreement by serving upon the party in default written notice of its election so to do. In the event the Licensee shall at any time be adjudicated a bankrupt, then the license hereunder shall immediately be and become cancelled and terminated. Neither party, by any such cancellation or termination, shall be relieved from any liability accrued at the time thereof.

8. Any notice required or permitted to be served by either party upon the other under the terms hereof, may be served by mailing the same to the other party, postage prepaid and registered, addressed to such other party at its last known principal office, and the deposit of such notice in the United States mails, postage prepaid and so addressed, shall constitute service of notice hereunder.

9. In case Licensor shall grant to any other person any license under the aforesaid patents for the manufacture, sale or use of gypsum board made by use of the processes or embodying the claims or inventions claimed in any of said patents, or shall grant any right

under any such license, upon terms more favorable than those granted hereunder to this Licensee, then it will grant to this Licensee a license on the same terms or extend to it the same right granted to any such other person.

10. This Agreement shall be effective as of the ..... day of .....

In Witness Whereof the parties hereto have caused these presents to be signed in duplicate by their respective presidents attested by their respective secretaries, and their corporate seal to be hereunto fixed, the day and year first above written.

United States Gypsum Company
By .....
President

Attest:

.....
Secretary

.....
President

Attest:

.....
Secretary

License Agreement.

This Agreement made and entered into at Chicago, Illinois, as of the 5th day of June, 1956, by and between United States Gypsum Company, a Corporation, organized and existing under and by virtue of the laws of the State of Illinois, hereinafter referred to as Licensor, and Evon Industries, Incorporated, a Corporation, organized and existing under and by virtue of the laws of the State of New York, hereinafter referred to as Licensee.

Witnesseth:

Whereas, Licensor is the owner of the United States Letters Patent to Gill and Southwick, No. 2,749,267, dated June 5, 1956, entitled "Method of Covering the Joint Between Wallboard and the Resultant Product"; and

Whereas, wallboard joint tape of the type defined as an element of the claims of said patent constitutes a material part of the invention covered by said patent, and is not a staple article or commodity of commerce suitable for substantial use other than in the said invention; and

Whereas, Licensee is desirous of acquiring a license to use, or sell for use, in the invention of said Gill and Southwick patent No. 2,749,267, such wallboard joint tape manufactured by it or by others for it, and Licensor is desirous of granting the same on the terms and conditions hereinafter set forth;

Now, Therefore, for and in consideration of the premises and of the covenants hereinafter recited and to be faithfully performed, and the sum of $1.00 by Licensee to Licensor in hand paid and other good and valuable considerations, the receipt of which is hereby acknowledged, It Is Mutually Understood and Agreed as Follows:

1, Licensor hereby grants to Licensee upon the terms and the conditions hereinafter set forth an indivisible, non-exclusive license and privilege under said patent No. 2,749,-267, and any reissues or extensions thereof, to manufacture, use and sell the invention covered by said patent, and to sell for use in said invention, wallboard joint tape known by Licensee to be especially made or especially adapted for use in said invention, whether such tape be manufactured by Licensee or by others for Licensee. Licensor further grants to Licensee the right to sublicense purchasers of wallboard joint tape sold by Licensee under the foregoing license to use the same in practicing the invention covered by said patent by affixing to such tape a notice as provided in paragraph 4 hereof.

2. Licensee shall pay to Licensor under the license granted in paragraph (1) hereof, royalties on all wallboard joint tape used, or sold for use, in said invention, at the following rates per calendar year:

$ .08 per thousand lineal feet for the first twenty million (20,000,000) lineal feet thereof—

$ .06 per thousand lineal feet for the next thirty million (30,000,000) lineal feet thereof—

$ .04 per thousand lineal feet for all over fifty million (50,000,000) lineal feet thereof.

3. For the purposes of this agreement, said wallboard joint tape shall be considered as sold when delivered or shipped by Licensee to purchasers, or when paid for if paid for before delivery.

4. Licensee agrees to clearly mark all joint tape used or sold under the license herein granted, with the name of the Licensee or an abbreviation or symbol thereof approved by Licensor, and a license notice that said wallboard joint tape is licensed under U. S. Letters Patent No.

2,749,267 for use in the invention covered thereby. Such notice shall consist of the legend

"Licensed for use under Patent No. 2,749,267"

which legend shall appear on the lead end of each roll of tape or on a label affixed to the roll and on the carton or package in which rolls of tape are shipped, or it shall appear in some other fashion approved in writing by Licensor.

5. Licensee agrees to keep full and accurate books of account and records showing the exact quantity in lineal feet of all wallboard joint tape used or sold under the license herein granted, and agrees that on or before the 20th day of each calendar month it will deliver to Licensor at its office in Chicago, Illinois, true written statements verified under oath, setting forth the total number of lineal feet of such wallboard joint tape used or sold by it during the preceding calendar month. Licensee also agrees to pay to Licensor at its said office, on or before the 20th day of each calendar month, the hereinbefore stipulated royalties which may then be due under the terms of this agreement on account of all such wallboard joint tape used or sold by Licensee during the preceding calendar month.

6. Licensor shall have the right at all reasonable times, and for such period or periods of time as it may from time to time determine, to verify the correctness of the royalty payments by inspection of the accounts and records of Licensee referred to in paragraph 5, provided, however, that such inspection shall be made by an independent auditor or by any other person acceptable to both Licensor and Licensee, who shall report to Licensor only the amount of wallboard joint tape used and sold under this license and the royalties which were payable during the period covered by the inspection. If Licensee shall object to the independent auditor selected by Licensor or

a such other person, then Licensor shall name in writing, addressed to Licensee, three Certified Public Accountants of good standing, not directly or indirectly employed by it or in any other manner connected with it, and if Licensee shall not within ten (10) days thereafter accept in writing any one of them, then Licensor shall have the right to designate one of the three to act as the independent auditor, and the expense of making such audit shall be borne equally by the parties.

7. Should Licensor at any time hereafter grant to another party a license under said patent No. 2,749,267 on more favorable terms as to royalty rates than those herein specified, it shall promptly notify Licensee thereof, and Licensee shall thereupon have herein the benefit of such more favorable terms which shall become effective as of the effective date of such more favorable license.

8. In the event of the bankruptcy or insolvency of Licensee, Licensor may cancel this agreement forthwith on written notice delivered to Licensee.

9. Should Licensee fail to keep or perform any of the covenants or obligations herein undertaken, Licensor may serve written notice upon Licensee of the alleged default and its intention to terminate this agreement, and should Licensee not remedy such alleged default within thirty (30) days after receipt of such notice Licensor shall, upon the expiration of said 30-day period, have the right to terminate this agreement by written notice to Licensee. Termination of this agreement shall not relieve either party from any obligation owing to the other at the time of termination and not then performed. Nothing in this paragraph contained shall prevent Licensor from specifically enforcing this agreement or any of the terms or conditions thereof by injunction, or from otherwise taking any action to enforce any claim it may have hereunder in such manner as may be provided by law.

10. Licensee shall not directly or indirectly, by itself or through or together with another or others, contest the validity of said patent No. 2,749,267 during the continuance of this agreement.

11. Should Licensee discontinue the manufacture and use or sale of wallboard joint tape under the license granted herein (except when required to do so by fire, strikes, floods or accidents, beyond the control of Licensee, or by acts of God, the public enemy or by directive of the United States Government in the event of war), for an accumulative period of time exceeding twenty-six (26) weeks (one hundred and thirty (130) days, exclusive of Saturdays, Sundays and holidays), in any two (2) year period, then either party hereto may at its option terminate this agreement by serving written notice of termination upon the other party hereto. Upon termination of this license agreement by either party, for any reason, all the rights and obligations of the parties hereto shall cease; provided, however, that no such termination shall affect or impair the right of Licensor to receive and collect all royalties due and owing from Licensee to Licensor as of the date of such termination.

12. All payments, statements, notices, reports or other communications which are required or permitted hereunder shall be addressed and delivered to the parties at the following addresses:

United States Gypsum Company
300 West Adams Street
Chicago 6, Illinois
Evon Industries, Incorporated
244 East 128th Street
New York, New York

13. Unless sooner terminated in accordance with the provisions hereof, this agreement shall continue until the expiration of said United States Letters Patent No. 2,749,-

267 and any reissues and extensions thereof. This agreement shall extend to and be binding upon the successors, legal representatives, and assigns of the parties hereto, but it is expressly understood and agreed that the license herein granted shall be personal to Licensee and shall not be sold, assigned or transferred by Licensee without the written consent of Licensor, nor may it be transferred by operation of law, nor may it become the property of any merged or consolidated company without the written consent of Licensor.

14. In the event that a court of final jurisdiction from which no appeal is or can be taken shall hold any of the claims of the licensed patent invalid, Licensee shall thereafter be permitted to use and to sell for use wallboard joint tape defined as an element in the claim or claims so held to be invalid and not covered as an element in any other claim or claims of the licensed patent, free and clear of the covenants of this agreement and without the payment of royalty therefor; provided that the full royalty payments provided for herein shall be paid by Licensee so long as the wallboard joint tape is covered as an element by any claim of the licensed patent not held to be invalid.

In Witness Whereof, the parties have had this instrument executed by their duly authorized officers and their corporate seals affixed thereto, as of the day and year first above written.

United States Gypsum Company
By Graham J. Morgan,
Vice President

Evon Industries, Incorporated
By Elizabeth Gross,
President

Attest:
F. F. Stellner,
(Seal) *Secretary*

Attest:
Peter H. Miller,
(Seal) *Secretary*

CONSTITUTIONAL PROVISIONS AND STATUTES.

The Constitutional Provision.

"Art. 1, Sec. 8. The Congress shall have power . . . . To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

The Sherman Antitrust Act.

26 Stat. 209 (1890) as amended by 36 Stat. 1167 (1911), 50 Stat. 693 (1937), 15 U. S. C. §§ 1, 2 and 3:

"Sec. 1. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal: *Provided,* That nothing herein contained shall render illegal, contracts or agreements prescribing minimum prices for the resale of a commodity which bears, or the label or container of which bears, the trademark, brand, or name of the producer or distributor of such commodity and which is in free and open competition with commodities of the same general class produced or distributed by others, when contracts or agreements of that description are lawful as applied to intrastate transactions, under any statute, law, or public policy now or hereafter in effect in any State, Territory, or the District of Columbia in which such resale is to be made, or to which the commodity is to be transported for such resale, and the making of such contracts or agreements shall not be an unfair method of competition under section 45 of this title: *Provided further,* That the preceding proviso shall not make lawful any contract or agreement, providing for the establishment or maintenance of minimum resale prices on

any commodity herein involved, between manufacturers, or between producers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms, or corporations in competition with each other. Every person who shall make any contract or engage in any combination or conspiracy declared by Sections 1-7 of this title to be illegal shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

"Sec. 2. Every person who shall monopolize, or attempt to monopolize or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

"Sec. 3. Every contract, combination in form of trust or otherwise, or conspiracy, in restraint of trade or commerce in any Territory of the United States or of the District of Columbia, or in restraint of trade or commerce between any such Territory and another, or between any such Territory or Territories and any State or States or the District of Columbia, or with foreign nations, or between the District of Columbia and any State or States or foreign nations, is declared illegal. Every person who shall make any such contract or engage in any such combination or conspiracy, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court."

CLAYTON ACT.

38 Stat. 731 (1914), 15 U. S. C. § 15:

"Sec. 4. That any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee."

PATENT ACT OF 1952.

65 Stat. 792 (1952), 35 U. S. C. § 271:

"§ 271. Infringement of patent

"(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

"(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

"(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

"(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done

one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement."

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1967

No. 1084

NATIONAL GYPSUM COMPANY and
PLAZA PLASTERING COMPANY,
Petitioners,

v.

UNITED STATES GYPSUM COMPANY,
Respondent.

On Petition for Certiorari to the United States Court of Appeals for the Seventh Circuit

BRIEF OF RESPONDENT IN OPPOSITION

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On Petition for Certiorari to the United States Court of Appeals for the Seventh Circuit

---

BRIEF OF RESPONDENT IN OPPOSITION

QUESTIONS PRESENTED

The questions presented by petitioners are hypothetical and irrelevant to the facts and issues in the case.

Petitioners' first two questions ask the Court to determine legal questions which presume the existence of a "tie-in" or "tying arrangement" by which respondent refused to grant licenses under its patent except on the condition that the licensee purchase respondent's spark-perforated tape for use in practicing the invention. But, the patent licenses of respondent did not involve a tie-in or tying arrangement. Both the District Court and the Court of Appeals refused to make such a finding although such a finding was sought by petitioners. The Court of Appeals said that "success on defendants' [petitioners'] claim of misuse would require *at least* a finding that plaintiff restricts licensing for the purpose of compelling the use of its

own tape" (P. App. 7*) (emphasis added). Therefore, the first two questions are purely hypothetical.

Petitioners' third and fourth questions assume that the patent involved in this suit is within the scope of the antitrust decree** because, if it is not, the questions are purely hypothetical. Petitioners argued that the patent is within the scope of the decree to both the District Court and the Court of Appeals, but both courts refused to make such a finding. On this point, the District Court said:

> "Since the Decree specifically limits itself to patents relating to wallboard made from gypsum, it would appear that it was not the intention of the Court to include under the Decree those patents which related to wallboard which was not necessarily made from gypsum." (P. App. 34)

The Court of Appeals found it unnecessary to reach this issue.

STATUTES INVOLVED

In addition to the statutes cited by petitioners, reference is also made to Section 1 of the Clayton Act, 38 Stat. 730 (1914), 15 U.S.C. §12 (1964), which provides in pertinent part:

> "'Antitrust laws,' as used herein, includes the Act entitled 'An Act to protect trade and commerce against unlawful restraints and monopolies,' approved July

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* As used herein, "P. App." means Appendix to Petition; "Pet." means the Petition for Writ of Certiorari; "Supp. App." means Supplemental Appendix to Brief for Plaintiff-Appellant (filed in the Court of Appeals by respondent); "P. A. App." means Appendix to Brief for Plaintiff-Appellant (filed in the Court of Appeals by respondent); and "D. App." means Appendix to Brief for Defendants Appellees (filed in the Court of Appeals by petitioners).

** Decree entered on May 15, 1951 in *United States* v. *United States Gypsum Co., National Gypsum Co., et al.* Civil Action No. 8017, District of Columbia District Court (herein referred to as the *Gypsum* case). P. App. 51-68.

second, eighteen hundred and ninety; sections seventy-three to seventy-seven, inclusive, of an Act entitled 'An Act to reduce taxation, to provide revenue for the Government, and for other purposes,' of August twenty-seventh, eighteen hundred and ninety-four; an Act entitled 'An Act to amend sections seventy-three and seventy-six of the Act of August twenty-seventh, eighteen hundred and ninety-four, entitled "An Act to reduce taxation, to provide revenue for the Government, and for other purposes,"' approved February twelfth, nineteen hundred and thirteen; and also this Act."

STATEMENT OF THE CASE

Petitioners' statement of the case is inadequate to give this Court the background necessary to determine whether or not to grant the writ. When this background is fully understood, it will be apparent that there is no important question of federal law which should be settled and that the decisions of the courts below are not in conflict with applicable decisions of this Court. Petitioners do not claim any conflict with the decision of any other Court of Appeals.

Petitioner National Gypsum Company (National) and respondent United States Gypsum Company have been competitors for many years in the manufacture and sale of wallboard which is used to form walls and ceilings by fastening it to wood or metal studs. A principal problem in the wallboard industry has been the need to discover a better way to cover the joints between two adjoining pieces of wallboard to form a smooth surface which can be painted, wallpapered or otherwise treated for decorating purposes.

On June 5, 1956, respondent obtained a patent on a new combination or method of covering the joints between wallboards which contained five claims, of which claims 1 and 5 are representative:

"1. The combination with wallboards attached to a support and having edges in substantially abutting

relationship forming a wallboard joint, of a strong thin cellulosic strip having perforations throughout with diameters from about 0.02 inch to 0.002 inch, said strip being adhesively secured over said joint and the edges of said wallboards adjacent thereto.

"5. The method of covering the joint between adjacent wallboards which comprises adhesively securing over said joint a strip of strong paper provided with substantially uniformly arranged spark-produced perforations having diameters from about 0.02 inch to 0.002 inch to permit the escape of air entrapped beneath said strip while substantially preventing the escape therethrough of adhesive employed to secure the strip in place." (P. App. 3)

Although the strip or tape is not patented *per se,* it is clearly a material part and, in fact, the most important element of the patented combination and method, being a tape specifically described in detail in the patent as a spark-perforated tape, the perforations having particular diameters which permit the escape of air trapped beneath the tape while preventing the escape of adhesive. Tape of this kind and description has no substantial commercial use other than as an element in practicing the invention.*

The value of the patent is in the improved method of treating wallboard joints so that the joints are hidden and, after decorating, the wall partition has a smooth surface comparable to wall partitions of lath and plaster. The invention is one that is practiced primarily by contractors and applicators erecting wall partitions in buildings and there are literally thousands of such contractors and applicators in the United States. It is not an invention

* The District Court refused to find that this spark-perforated tape had any substantial noninfringing uses. The Court of Appeals said: "We conclude that if the patent was valid, it was infringed." (P. App. 5). Petitioners (Pet. 10-11) concede that they "do not complain" that "the selling of such tape by others constitutes contributory infringement." See 35 U.S.C. § 271(c) (1964).

that would normally be practiced by the respondent or the petitioner National, neither of whom is in the business of erecting wall partitions but are in the business of manufacturing wallboard and tape for covering the wallboard joints. The value of the invention to respondent is in having it used by contractors and applicators to improve the acceptance of drywall construction.

Respondent never refused to grant a license under the patent to anyone who desired to construct wallboard joints using the combination or method described in the patent or who manufactured or sold tape of the kind described in the patent. On the contrary, respondent took various steps to make the invention freely available to manufacturers, contractors and applicators.

As a manufacturer of the particular kind of tape described in the patent, it sold it with the inscription

> "Licensed for use in wallboard construction covered by Patent #2,749,267." (Supp. App. 959).

In so doing, respondent was merely notifying the ultimate user of the tape (the contractor or applicator) of a license which it had by implication through the purchase of the tape. *United States* v. *Univis Lens Co.*, 316 U.S. 241, 249 (1942).

Respondent licensed Marvan Corporation, a Connecticut corporation, and Evon Industries, Incorporated, a New York corporation—who were manufacturers of tape, to use the invention and to sell for use in the invention the special spark-perforated tape, whether the tape was manufactured by the licensee or by others for the licensee. The license agreements provide:

> "1. Licensor hereby grants to Licensee upon the terms and the conditions hereinafter set forth an indivisible, nonexclusive license and privilege under said

patent No. 2,749,267, and any reissues or extensions thereof, *to manufacture, use and sell the invention covered by said patent, and to sell for use in said invention, wallboard joint tape known by Licensee to be especially made or especially adapted for use in said invention, whether such tape be manufactured by Licensee or by others for Licensee.* Licensor further grants to Licensee the right to sub-license purchasers of wallboard joint tape sold by Licensee under the foregoing license to use the same in practicing the invention covered by said patent by affixing to such tape a notice as provided in paragraph 4 hereof." (Emphasis added.) (P. App. 70)

The license did not require a purchase of tape from respondent, nor was it limited to tape manufactured by the licensee, but clearly provided that, to the extent licenses were granted, the spark-perforated tape could be manufactured by the licensee or by others (including National) for the licensee. In short, respondent gave these licensees every right to use the invention which respondent had under the patent. The license provided for a royalty only on the special spark-perforated joint tape *used or sold for use in the invention.*

Respondent offered National a license "on the same terms as licenses which have already been granted to others," but National refused to take a license (Supp. App. 839) and continued to manufacture the special spark-perforated tape and sell it to others (including manufacturers of wallboards) giving them indemnities against infringement. (P.A. App. 441-46)

National having continued to manufacture spark-perforated tape of the type described in the patent, which could only be used in the practice of the invention, respondent commenced suit in the Northern District of Illinois against National for contributory infringement and inducement of infringement, and against Plaza Plastering Company, an applicator who bought spark-perforated tape

from National and used it in the construction described in the patent, for direct infringement.

The answers denied liability on the grounds that the patent was invalid, that, if valid, it was not infringed, and that the patent had been misused. The answers also contained counterclaims alleging violation of Section 2 of the Sherman Act by monopolization or attempted monopolization of the sale of spark-perforated tape. The counterclaims were later amended to include an allegation that respondent conspired with its licensees to obtain a monopoly of the sale of spark-perforated tape. At the trial, after the close of petitioners' case, the trial judge granted respondent's motion to dismiss the counterclaims, pointing out that the petitioners' evidence had failed to show a violation of the Sherman Act. At the conclusion of the trial, the court found the patent valid but not infringed and rejected the misuse claims.

The Court of Appeals remanded on certain aspects of the question of validity, saying that further findings should be made. The court also held that if the patent was valid, it had been infringed by National and Plaza Plastering Company and affirmed the lower court's decision that there had been no misuse or antitrust violation. A petition for rehearing on one phase of the issue of validity was denied November 7, 1967. There was no petition for rehearing on the issue of infringement or the so-called antitrust and misuse issues. Significantly, petitioners are not challenging the Court of Appeals' holding that they have infringed the patent.

REASONS FOR DENYING THE WRIT

Introduction

Petitioners' reasons for asking the Court to grant certiorari are misleading and illogical.

Petitioners' first two questions assume that respondent has refused to license others to use the patent except on the

condition that the licensee purchase respondent's tape, and then ask the question whether or not such a tie-in is a misuse of the patent and a violation of Section 1 of the Sherman Act. But, there is no finding that there was any such tie-in condition. In fact, the District Court refused to make any such finding and the Court of Appeals affirmed. In effect then, the Court is asked to review the record and find that there was a tie-in arrangement and *then* decide the questions which petitioners have presented.

Petitioners' third and fourth questions deal with an antitrust decree entered against respondent, National, and others in 1951. They springboard their questions on an assumption that this patent is covered by the decree in spite of the fact that the District Court refused to make any such finding and the Court of Appeals affirmed. And, in the fourth question, petitioners further assume that the decree has been violated and then ask the Court to hold that any violation of an antitrust decree is a *per se* violation of the antitrust laws.

Briefly stated, the questions which petitioners would have this Court decide are dependent upon a review of the record and the making of findings of fact which the District Court refused to make, which refusal was upheld by the Court of Appeals.

Respondent submits that this controversy does not raise any important questions of federal law and that there is no conflict with applicable decisions of this Court. This is a private scrap between two manufacturers of wallboard and tape relating to issues of patent validity and infringement. The so-called antitrust and misuse issues are without substance and are purely hypothetical.

Significantly, petitioners proved no damage to anyone and admitted in open court that they did not expect to be able to prove any damanges to their business or property as a result of the claimed misuse and antitrust violation.

The sole reason for pursuing the antitrust feature of the case, as admitted by petitioners' counsel was to enable petitioners to collect treble attorneys' fees (D. App. 208-9).

1. Petitioners' First Question

Petitioners' first question asks whether or not it is a misuse of a patent to tie to the licensing of the patent the sale of an unpatented product.

Petitioners argue (Pet. 8-11) that the Court should grant certiorari because "this Court has not heard a case involving patent tie-in arrangements since the enactment of the Patent Act of 1952 . . ." and that there is some difference of opinion regarding the effect of Section 271 on the doctrine of *Mercoid*.* Petitioners' argument is that respondent's patent licenses are condemned by *Mercoid* and, therefore, it is important to determine to what extent Section 271 affected the holding in *Mercoid*.

But the fallacy of the argument is that the tie-in condition condemned by *Mercoid* is not present in this case and we do not even reach the question whether, and to what extent, Section 271 affected the holding in *Mercoid*.

In *Mercoid* the exclusive licensee under the patent refused to grant sublicenses to use a combination patent, except on condition that the sublicensees purchase the unpatented stoker switch, which was an element of the combination, from the exclusive licensee. It was held this tie-in was an extension of the patent monopoly which constituted a misuse of the patent and a violation of Section 1 of the Sherman Act.**

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* *Mercoid Corp.* v. *Mid-Continent Inv. Co.*, 320 U.S. 661 (1944).

** Unlike the case at bar, the evidence in *Mercoid* clearly showed a tie-in. This Court there said (320 U.S. at 663): "Minneapolis-Honeywell in advertising its [unpatented] stoker switches stated that the 'right to use' the Cross system was 'only granted to the user' when the stoker switches of Minneapolis-Honeywell were purchased from it and used in the system."

But, respondent did not enter into any such tie-in condition and, consequently, it is immaterial to a decision in this case to what extent Section 271 of the Patent Act of 1952 changed or affected the decision in *Mercoid*. The District Court found from the record there was no evidence of any such tie-in condition as was condemned in *Mercoid* and the Court of Appeals affirmed. Thus, it would take a new review of the record and a finding by this Court that there was a tie-in condition before the question posed by the petitioners is even arguable.

Respondent never granted any license on the condition that the spark-perforated tape specifically described in the patent should be purchased from respondent. And, it never refused to grant a license to anyone because the prospective licensee refused to purchase tape from the respondent. The evidence is that it never refused a license to anyone. Petitioners point to no evidence or any finding to the contrary and they cannot do so.

Petitioners' argument (Pet. 11) that there is an illegal tie-in condition is that the granting of licenses by placing a notice on the special spark-perforated tape, requires the user (contractor or applicator) to pay a built in but unknown royalty no matter what he chooses to do with the tape and that he gets no refund if the tape is destroyed or shipped from the country. Petitioners then conclude: "It is this tying arrangement that constitutes an unlawful extension of the monopoly, i.e., a misuse."

This statement of petitioners' position completely fails to establish any tie-in condition of a nature condemned in *Mercoid* or any other tie-in case. It does not support the conclusion that respondent refused to grant licenses except on the condition that the licensee purchase *respondent's* spark-perforated tape. Even the petitioners' premises

are unsupported. There is no finding, and no evidence from which a finding could be made, that any purchaser of special spark-perforated tape has to pay a royalty to anyone. And the premise that a purchaser of special spark-perforated tape buys it for any use other than to use it in treating of wallboard joints, is without any support—the spark-perforated tape of the kind called for by the patent is specially made for that purpose and there is no finding that there is any other use for the tape.

Petitioners do not claim that the sale of special spark-perforated tape by respondent was itself a tie-in condemned by *Mercoid*. In fact, petitioners admit (Pet. 10-11) they cannot complain that respondent sells spark-perforated tape. Consequently, the sale of tape together with a license to use it in the invention is not a tie-in such as condemned by *Mercoid*.

Furthermore, it is clear from the record that respondent had no intention or program of seeking a monopoly in the sale of special spark-perforated tape. It licensed two manufacturers to make, use and sell the invention and to sell special spark-perforated tape for use in the invention and provided that the licensee could manufacture the tape or have it manufactured for him. And petitioner National was also offered a license on the same terms. This is positive evidence that there was no attempt here to monopolize the manufacture and sale of special spark-perforated tape or to limit the practice of the invention to special spark-perforated tape manufactured by respondent or its licensees.

And there is no anticompetitive purpose or effect in respondent's activities. There is no evidence or claim of any "injury" to anybody's trade or business as a result of respondent's licensing practices. Daniel Plaza, the President of petitioner, Plaza Plastering Company, testified that

until this lawsuit was initiated, he "never knew there was such a thing" as spark-perforated tape, and that he had used numerous companies' tapes, including respondent's, but that he recognized no difference between different brands of tape and never once specified a tape by brand (P.A. App. 148-53). George H. Wilbur, a dealer in wallboard, joint cement and joint tape manufactured by respondent, by National, and by others, testified that he was not familiar with the patent in suit and that he had never heard of any patent relating to spark-perforated wallboard joint tape (Supp. App. 143-44). The only other dealer who testified on this subject testified to the same effect (Supp. App. 146-48).

Thus, we do not even reach *Mercoid,* because there was no tie-in condition such as was condemned in *Mercoid* and it becomes unimportant to determine to what extent, if any, the doctrine of *Mercoid* was affected by Section 271 of the Patent Act of 1952.

2. Petitioners' Second Question

Petitioners' second question is: Where a patentee has tied to a patent license the purchase of an unpatented product which can be used in a patented combination, is it necessary to establish relevant market characteristics to establish a violation of Section 1 of the Sherman Act?

Petitioners (Pet. 12) claim that there is an illegal tying arrangement under Section 1 of the Sherman Act on the same grounds that they claim an illegal tie-in condition under the doctrine of *Mercoid,* i.e., that users of the special spark-perforated tape are compelled to pay an unknown built in royalty and get no refund if the tape is used for some other purpose or shipped out of the country. We disposed of that argument under *Mercoid* at pp. 9-11 of this brief. The argument is no more valid in sustaining an

illegal tie-in condition under Section 1 of the Sherman Act for the same reasons.

Then, petitioners say that respondent has denied "competitors free access to the market for spark-perforated tape, the tied product"—not because of a better product or lower price but by leverage. But petitioners do not say what respondent has done to warrant this statement. Respondent did not grant any license on condition that the licensee purchase respondent's spark-perforated tape. It did not refuse any license because the prospective licensee would not agree to buy respondent's spark-perforated tape. It never refused a license to anyone. Petitioners completely fail to point to any practice of respondent that is condemned by the cases they refer to under this point. On the other hand, petitioners concede that any sale of special spark-perforated tape for unlicensed use in the invention constitutes contributory infringement (Pet. 10-11). But this results from the patent grant, not because of any unlawful leverage exercised by respondent. In fact, petitioners have been found guilty of infringement by the Court of Appeals and they do not challenge that ruling.

Petitioners argue that the District Court in its opinion commented that there was no evidence of plaintiff's position in the relevant market, whether the market included all kinds or types of tape or only spark-perforated tape. Obviously, at that point the District Court was not talking about any alleged "tie-in" or Section 1 violation, but rather about petitioner's claim of monopolization and attempted monopolization under Section 2 of the Sherman Act. There is no holding here that establishment of a relevant market is necessary to prove an illegal patent tying arrangement under Section 1. Furthermore, as it relates to Section 2, the District Court's statement is in accord with the decision

of this Court in *Walker Process Equipment Inc.* v. *Food Machinery & Chem. Corp.*, 382 U.S. 172, 177 (1965).

The cases cited by petitioner as supposed authority for the contentions made relating to their second question are clearly cases where the sale, lease or license was conditioned on the purchase from the grantor of some other product or service. In *Northern Pacific Ry. Co.* v. *United States*, 356 U.S. 1 (1958), leases and sales of property were conditioned on the lessee or the buyer shipping their products over the lines of the Northern Pacific. In *International Salt Co.* v. *United States*, 332 U.S. 392 (1947), a lease of a patented dispensing machine was made only on condition that the lessee purchase its salt tablets from International Salt. In *United States* v. *Paramount Pictures, Inc.*, 334 U.S. 131 (1948), the licensing of certain motion pictures was on the condition that the licensee take certain other pictures. The same was true in *United States* v. *Loew's Inc.*, 371 U.S. 38 (1962).

The doctrine of these cases is clear, but we do not have any such tie-in condition here.

3. Petitioners' Third Question

Petitioners' third question asks the Court to hold that both the District Court and the Court of Appeals were wrong in deciding that the respondent's licensing practices did not violate the 1951 *Gypsum* decree entered in antitrust litigation involving respondent's licenses under its gypsum board patents. (P. App. 51-63)

None of the considerations applied by this Court in determining whether or not to exercise its certiorari jurisdiction is present in petitioners' third question. What is involved is simply the interpretation of the language of a District Court decree. Both lower courts held that respondent's

licenses did not violate the decree and thus there is no need for further review.

Furthermore, it is amply clear that the decisions of both lower courts correctly interpret the antitrust decree. That decree directed respondent to grant licenses on all patents issued, applied for or acquired within five years after the date of the decree "relating to gypsum board, its processes, methods of manufacture or use." Respondent was permitted to charge a reasonable non-discriminatory royalty "which royalty may not be imposed upon or measured by patent-free products, processes or uses . . ." The District Court and the Court of Appeals determined that spark-perforated tape of the kind described in the patent, although not patented *per se,* was not "patent-free" as that term was used in the decree.

Obviously, the use of the term "patent-free" has a meaning different from "unpatented", else the more familiar term "unpatented" would have been used. How could it be argued with any sincerity that spark-perforated tape of the kind specifically set forth in the patent is "patent-free" when the sale of that tape by National has been held by the Court of Appeals to be an infringement of respondent's patent, from which holding petitioners have not appealed.

The term "patent-free" has already been construed as meaning something other than "unpatented." An interim license attached to the decree and approved by the court when the decree was entered provided that the licensee shall pay royalties "at the rate of a fixed percentage of licensee's selling price on all gypsum board manufactured by a patented process or embodying any of the inventions covered by said patents and sold by it during the term of the license." (DX 1257, D. App. 537). A gypsum board

"embodying" any of the inventions of the licensed patents would be a patented product. A gypsum board which was merely manufactured under any of the licensed processes could be an unpatented product. If "patent-free" simply meant "unpatented," the approval of this interim license was itself a violation of the decree.*

Petitioners falsely attempt to imply that this Court placed a different construction on the words "patent-free" (Pet. 18-19). The language quoted from this Court's opinion in the *Gypsum* case (333 U.S. at 400) was obviously directed at this Court's disapproval of the basing of royalties on the sale of a product (open-edge gypsum board) which was neither patented nor produced by or used in connection with a patent. The opinion is therefore completely in accord with that of the District Court that entered the antitrust decree as well as the District Court and Court of Appeals in this case. Contrary to petitioners' representation (Pet. 18), none of the cases from this Court's *Gypsum* opinion involved the question of basing royalties on products made by a patented machine or process, or used in a patented combination or method.

Furthermore, it is equally apparent that the patent is not covered by the *Gypsum* decree, which was limited to *gypsum* board, its processes, methods of manufacture or use. This was recognized by the District Court which said:

> "Since the Decree specifically limits itself to patents relating to wallboard made from gypsum, it would

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* Petitioners' statement that "there is no indication that the interim license was considered or discussed by the Court" (Pet. 20) is false. On the day of the entry of the decree, the interim license was discussed at length (DX 2000, pp. 598-99) and the Court concluded "We approve the form of the license agreement and order it filed . . . The court has executed the decree, and with the attached license agreement, which has the approval of the court . . ." (DX 2000, pp. 601-02).

appear that it was not the intention of the Court to include under the Decree those patents which related to wallboard which was not necessarily made from gypsum." (P. App. 34).

We suggest that the third question posed by petitioners is not a question of federal law to be settled by this Court and, certainly, the decision below is not in conflict with applicable decisions of this Court.

4. Petitioners' Fourth Question

Petitioners' fourth question seeks to have this Court rule that a violation of an antitrust decree is a *per se* violation of the antitrust laws. This question will be reached only if this Court overturns both the lower courts' interpretation of the words "patent-free" as used in the 1951 antitrust decree and also finds that the patent is subject to the decree. Obviously, this is not a proper question for certiorari because the decision of both lower courts is fully in accord with the prior decisions of this Court.

Petitioners' antitrust claims are based upon Section 4 of the Clayton Act (15 U.S.C. §15), which provides for treble damage suits for violation of the "antitrust laws." Section 1 of the Act (15 U.S.C. §12) defines "antitrust laws" as consisting of the Sherman Act, the Clayton Act, and the Wilson Tariff Act. This Court has held that "the definition contained in Section 1 of the Clayton Act is exclusive." *Nashville Milk Co.* v. *Carnation Co.*, 355 U.S. 373, 376 (1958). Therefore, even if petitioners could show a violation of the antitrust decree, this would not be a *per se* violation of the antitrust laws, because the decree is not one of the "antitrust laws," as defined by this Court.

Antitrust decrees enjoining activity otherwise completely lawful under the antitrust laws have frequently been ap-

proved by this Court. "To ensure . . . that relief is effectual, otherwise permissible practices connected with the acts found to be illegal must sometimes be enjoined." *United States* v. *Loew's Inc.*, 371 U.S. 38, 53 (1962); ". . . [T]he court is obliged not only to suppress the unlawful practice but to take such reasonable action as is calculated to preclude the revival of the illegal practices", *FTC* v. *National Lead Co.*, 352 U.S. 419, 430 (1957); "The decree enjoins continuation or repetition of the conduct found illegal . . . It also contains certain other restraining provisions which were within the Court's discretion because 'relief, to be effective, must go beyond the narrow limits of the proven violation' *United States* v. *United States Gypsum Company*, 340 U.S. 76, 90 (1950)," *Timken Roller Bearing Co.* v. *United States*, 341 U.S. 593, 600 (1951); ". . . Equity has the power to uproot all parts of an illegal scheme—the valid as well as the invalid—in order to rid the trade or commerce of all taint of the conspiracy," *United States* v. *Paramount Pictures Inc.*, 334 U.S. 131, 148 (1948).

Furthermore, in *United States Gypsum Company* v. *National Gypsum Company*, 352 U.S. 457 (1957), this Court rejected a similar claim by National [which is reiterated in the petition herein (Pet. 20)] that a violation of the decree constituted a misuse which barred recovery for infringement (352 U.S. 457, 466-8). That decision, which arose in prior litigation between respondent and National involving the same decree, establishes that a violation of the decree is not, *per se*, a bar to an infringement action and, *a fortiori*, not a violation of the antitrust laws.

Conclusion

The petition for Writ of Certiorari should be denied.

Respectfully submitted,

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1967.

No. 1084

NATIONAL GYPSUM COMPANY AND
PLAZA PLASTERING COMPANY,
Petitioners,

vs.

UNITED STATES GYPSUM COMPANY,
Respondent.

REPLY BRIEF OF PETITIONER ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

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March 8, 1968.

THE GUNTHORP-WARREN PRINTING COMPANY, CHICAGO

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NATIONAL GYPSUM COMPANY AND
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Petitioners,

vs.

UNITED STATES GYPSUM COMPANY,
Respondent.

REPLY BRIEF OF PETITIONERS.

The following statements of respondent require comment:

1. Respondent, in arguing that its patent does not fall within the Decree, quoted the district court and asserted the quote was a ruling in its favor on the issue (B. R. 2)*. Respondent omitted the continuing statement:

> "At any rate, I need not decide this rather complex issue. I shall assume that the Gill patent does in fact fall within the terms of the Decree" (App. 34).

2. Respondent characterizes the tape as "a material part" and "the most important element of the patented

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* Brief of Respondent in Opposition.

combination and method" (B. R. 4). That such an unpatented element is not entitled to preferential treatment was settled by *Mercoid Corp.* v. *Mid-Continent Inv. Co.*, 320 U. S. 661, 667 (1944).

3. The statement that spark tape has no substantial noninfringing use (B. R. 4, 6) is an argument, not a fact, and is contrary to the evidence. The quote from the Petition set out in the Footnote is taken out of context. The original statement by Petitioners makes no such concession.

4. Respondent argues that its specific licensees, Marvan and Evon, were licensed to make and use the invention (B. R. 5-6). The fact is that neither of them made or used the invention nor did they ever intend to. They are makers of tape and not the patented combination.

There is no evidence of a single commercial use of the patent with tape made by an end user.

5. Respondent argues that it never granted a license on condition that the spark tape be bought from it (B. R. 10, 13). This may be true as to a written condition but it is false as to an implied condition. The only licenses given to users by respondent were for use of tape bought from respondent, and only for that tape. There is no need for the condition to be expressed. "[I]t may be simply inherent in the practice of the patentee in granting licenses only to those who purchase the unpatented product from him . . ." REPORT OF THE ATTORNEY GENERAL'S NATIONAL COMMITTEE TO STUDY THE ANTITRUST LAWS, 1955 (p. 237), also citing *Leitch Mfg. Co.* v. *Barber*, 302 U. S. 458 (1938); *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495 (1942); *Barber Asphalt Corp.* v. *La Fera Grecco Contr. Co.*, 116 F. 2d 211 (3d Cir. 1940).

6. Repeatedly, respondent says that petitioners do not deny infringement. This is untrue.

Respectfully submitted,

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